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THE BALTIC STATES

A SURVEY OF THE POLITICAL
AND ECONOMIC STRUCTURE
AND THE FOREIGN RELATIONS
OF ESTONIA, LATVIA, AND
LITHUANIA

Prepared by
The Information Department of the
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ERRATA

Page	*Line*	
40	28–30	*For* Bartolini *read* Bartaloni
56	Footnote (1), Col. 3, line 4, *for* 19 *read* 21	
		For last four lines read as follows:

Poles . . .	3	2	4	4	..
Russians . .	..	..	1	..	..
Germans . .	1	..	2	1	..
Memel Territory .	..	..	..	5	3
Total	112	80	78	85	49

57	31	*Transpose* (Christian-Democrat) *and* (Peasant Union).
58	25	*Delete* General Ladyga and
193	34–6	*For the sentence beginning* At the end of 1934 *read*: At the end of 1936 there were 1,116 miles of railways in existence, of which 769 miles were of normal gauge, the rest being of narrow gauge.

P. 1

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PRINTED IN GREAT BRITAIN

PREFACE

121 THE object of the series of publications, of which the present volume is the second (the first, *The Balkan States, I. Economic*, was published in 1936 and the third, *The Scandinavian States*, will be published shortly), is to provide within deliberately restricted limits a concise, and at the same time relatively comprehensive, review of the historical background, political and economic development and structure, and foreign relations of the countries in the regions with which they deal.

The grouping together of the three Baltic States is to some extent arbitrary, since, although they share much in common, and although for geographical, historical, and social reasons many of their problems are the same, they form what are essentially three separate and distinct national groups. Their differences are at least as striking as their similarities.

105 Racially, although there is relationship between the Lithuanians and Latvians, there is none whatever between either of these peoples and the Estonians, whose language and culture approximate to those of Finland. As regards religion, the Lithuanians are almost entirely Roman Catholic; the Latvians and Estonians are mainly Protestant. Estonia and Latvia look to the Baltic, and have maritime and fishing interests; Lithuania is almost entirely an inland and agricultural country—her only port (Klaipeda, or Memel) has a preponderant German population. Tartu (Dorpat) in Estonia and Riga in Latvia are educational and cultural centres of long tradition. There is no comparable centre in Lithuania, since Vilna is in Polish possession. Thus, it may be said, without unfair implication, that politically, culturally, and industrially both Latvia and Estonia have reached a more advanced stage of development than Lithuania. Moreover, the progress of the two former States has not been retarded by difficult and at times serious disputes with their neighbours, such as Lithuania's conflicts with Poland in regard to Vilna, and Germany in regard to Memel; further, Lithuania has never possessed manufacturing industries of any great importance, and is still dependent on agriculture and timber; whereas Estonia and Latvia are relatively more advanced industrially, largely owing to the economic structure developed when they formed important industrial centres in the Russian Empire.

Again, in the matter of communications Lithuania was less well served than the other two States, for, until the seizure of Memel in 1923, she had no port under her control, and even after that date no

105 port subject to her unrestricted sovereignty. In spite of these difficulties, which placed her at a serious disadvantage as compared with Estonia and Latvia, the success of Lithuania in organizing the country commercially, developing agricultural production, and finding foreign markets for dairy produce has been remarkable.

Nor are the problems of external and internal policy by any means identical in the three countries. But there are certain factors in the situation of all three of them which tend to link them together—in the minds of the outside world at any rate, and to some extent even in their own.

105 148 131 The three Baltic States were all until recently part of the Russian Empire. They form, in effect, although Lithuania has no common frontier with the Soviet Union, a buffer between Germany and Russia. As such, they are as much the potential battle-field for a clash between these two great ideological protagonists as they are the potential victims of agreement between them for their partition. Geographically, they occupy the seaboard and cover a territory which in the past were regarded in Germany as a natural field for trade and colonization, and in Russia as an essential, if not a vital, outlet to the Baltic Sea. After the War, the Revolution, and the attainment of independence by the three States, the Soviet Union's Baltic seaboard was reduced to less than one hundred miles at the head of the Gulf of Finland, and the natural lines of communication from central Russia to the sea-ports of Tallinn (Reval), Paldiski (Baltic Port), Riga, and Liepāja (Libau) were blocked by the new frontiers.

Their geographical position has also exposed them to propaganda in favour of the political doctrines of their neighbours. In the immediate post-war period Bolshevism contributed the principal source of anxiety; Germany at that time was still weakened by defeat. From 1933 onwards a new preoccupation in the form of National-Socialism came upon them from the West. Thus, in the political sphere their perpetual lot seems to be the steering of a difficult course between Scylla and Charybdis.

105 In the economic sphere also Estonia, Latvia, and Lithuania share many problems in common; the dislocation caused by the War and the Soviet Revolution, by the agrarian reform and the loss of former markets and their natural hinterland in Russia and Poland across the new frontiers, has borne heavily upon them; all three States have populations predominantly engaged in agriculture; all have striven hard to intensify agrarian production, discover new markets, and 474] develop their industry. Co-operative organization, especially as regards agriculture, is an outstanding feature in all three countries, and has played an important part in the development of production; shortage of capital has equally been a cause of retarding it.

In regard to foreign trade, the predominant share of the United 105
Kingdom and Germany will at once attract attention. For the Baltic 439
States the United Kingdom represents an overwhelmingly important export market for dairy produce, bacon, and timber—almost as important relatively as the British market is to Denmark. The same, though to a lesser degree, is true of Germany. For both these countries the Baltic States offer a valuable market for manufactured goods. The struggle for this market has been keenly contested, with the advantage in favour of Germany until 1934, when the new British Trade Agreements redressed the balance in favour of the United Kingdom.

In the political sphere, a phenomenon which cannot escape atten- 105
tion is the transformation from the ultra-democratic Constitutions 642
promulgated in 1920 to dictatorial régimes, which appear to be groping towards some new organization of the State upon a corporative basis. In Estonia, however, since the promulgation of the new Constitution, an evident effort is being made to return to democratic government.

The economic chapters have been specially prepared for the In- 121
formation Department, and have been divided into two main parts, the first dealing with the structure and development of the three States up to the crisis of 1931, the second describing the effects of the crisis upon their economy and their successful efforts to fight their way back to recovery.

CHATHAM HOUSE,
May 9, 1938.

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NOTE ON PLACE-NAMES

/03

In dealing with the pre-Independence period the old names are used; in the chapters dealing with events subsequent to the attainment of Independence, in 1918, the new forms then adopted are employed.

Throughout the Handbook, however, VILNA (instead of the modern Lithuanian VILNIUS and the Polish WILNO), MEMEL (instead of the modern KLAIPEDA), and NIEMEN (instead of the modern Lithuanian NEMUNAS) are employed, as these forms have remained in common usage.

For purposes of convenience, a short list of the new and old forms of important places is appended:

	New	*Old*
ESTONIA	Hiiumaa (Island)	Dagö
	Paldiski	Baltic Port
	Pärnu	Pernau
	Saaremaa (Island)	Oesel
	Tallinn	Reval
	Tartu	Dorpat
LATVIA	Cēsis	Wenden
	Daugava (River)	Dvina
	Daugavpils	Dvinsk
	Jelgava	Mitau
	Kurzeme (Province)	Courland
	Liepāja	Libau
	Lielupe (River)	Aa
	Valga	Walk
	Ventspils	Windau
	Vidzeme (Province)	Livonia
LITHUANIA	Kaunas	Kovno
	Klaipeda	Memel
	Nemunas (River)	Niemen
	Panevežys	Poneviej
	Siauliai	Shavli
FINLAND	Helsinki	Helsingfors
POLAND	Wilno	Vilna
U.S.S.R.	Leningrad	St. Petersburg—Sept. 1914. Petrograd—Mar. 1924.

A. HISTORICAL AND POLITICAL

I. HISTORICAL BACKGROUND

162 UNTIL the twelfth century the marshes and forest-lands along the eastern coast of the Baltic Sea were left in the more or less undisturbed possession of a number of pagan tribes. The Esths and Livs[1] in the northern regions belonged to the Finnish branch of the Ural-Altaic family, while another group farther to the south, subdivided into Letts, Borussians, and Lithuanians, besides a number of other branches, was of Indo-European stock. The Borussians, who moved southward to what is now East Prussia, were early subdued and assimilated by the Germans, while the Letts tended to push northward into Livonia.

797
167 *The Teutonic Orders.* The first invaders of these regions were the Danes, who conquered the northern half of Estonia in the twelfth and early thirteenth centuries. German merchants and missionaries had meanwhile penetrated into Livonia, where a bishopric was established at Riga in 1201. From then onwards the greater part of the areas now occupied by the States of Latvia and Estonia gradually fell under the dominion first of the Knights of the Sword, and then of the Order of Teutonic Knights, to whom, in 1346, the Danes sold their share of Estonia. These Orders colonized the territory, converted the inhabitants to Christianity, and made them their serfs. Their lineal descendants, the Baltic Barons, maintained their position as the land-owning class until recent times, in spite of the fact that the territory eventually passed into the hands of Sweden and Poland, and finally into those of Russia.

In Lithuania, on the other hand, the Teutonic Knights were never able to make much headway except in the Memel territory, of which the frontier was permanently fixed after the defeat of the Order at Tannenberg in 1410 by Vytautas—one of a succession of Lithuanian Grand Dukes who, in the course of the thirteenth, fourteenth, and fifteenth centuries, built up a united and powerful State and helped to check the Tartar invasion of Europe.

248 *Poland and Sweden (1386–1709).* After the death of Vytautas in 1430, Lithuania rapidly fell into a position of dependence on Poland, with which country she had already been nominally connected under

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162 [1] According to Prince P. A. Kropotkin the native language of the Livs was of Finnish origin, though they now speak a Lettish *patois.* (See *Encyclopaedia Britannica*, 11th edition, vol. xvi, p. 817.) The Livs are now practically extinct, though there is a small community of them, some 1,500 strong, in modern Latvia.

648 a personal union since 1386. In 1569, under the Union of Lublin,
[795] she lost her independence altogether, and until the partitions of Poland in 1772–93 she shared a common history with that country. One of the most enduring results of the Polish régime was the establishment of the Roman Catholic religion in what had hitherto been a practically pagan State, at a time when Lutheranism was being introduced by the Baltic Barons in Livonia and Estonia.[1]

In the sixteenth century the power of the Teutonic Knights in the latter Provinces began to weaken under repeated assaults from the Russians, which reached their high-water-mark under Ivan the Terrible between 1558 and 1584. In 1521 Estonia had already accepted the protection of Sweden; and in 1560, after the dissolution of the Teutonic Order, Poland annexed Courland and Livonia, although a large part of the latter was afterwards wrested from her by the Swedish king, Gustavus Adolphus, in 1626. The districts which thus came under Swedish rule enjoyed a somewhat more liberal régime than had hitherto been their lot. The privileges of the Baltic Barons were curtailed, and something was done towards national education—it was during this period that the University of Dorpat was founded in Estonia. In Courland, however, where the Barons were left a very free hand, owing to Poland's preoccupations elsewhere, the peasants were no better treated during this period than they had been before.

Russian Rule (*1710–1918*). Finally, the eighteenth century saw the defeat of Charles XII by Peter the Great at Poltava (1709) and the gradual passing of control over the Baltic Provinces from the declining Swedish Empire and Poland to Russia.[2] The period of Russian domination, which lasted down to the outbreak of the World War, opened ominously, although conditions improved somewhat during the first half of the nineteenth century.

177 In Lithuania the partition of Poland was followed by a period of
[795] Russification; the Orthodox religion was introduced, and Catholic
[871] ecclesiastical property was to a large extent handed over to the Orthodox Church; the University of Vilna and the higher schools were closed, and the use of the Lithuanian language was forbidden in
421 all schools. In 1861 the peasants were liberated and granted the right
565 to hold a small amount of land; but, after the Polish insurrection of 1863, which was sternly suppressed by Muraviev, it was decreed that

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[1] Swedish rule was later a decisive factor in the establishment of the Lutheran Church in Estonia.

[2] Riga was captured in 1710 and Reval soon after. Livonia and Estonia were ceded to Russia by the Peace of Nystadt in 1721; Courland gradually became to all intents and purposes a Russian protectorate, and in 1795 formally acknowledged the suzerainty of Catherine the Great. In the course of the three partitions of Poland in 1772, 1793, and 1795 the whole of Lithuania proper passed into the hands of Russia, although Memel remained part of Prussia, in which it had been incorporated in the sixteenth century.

only adherents of the Orthodox religion might hold land, and the 421
following year the writing of Lithuanian in Latin characters was for- 565
bidden. In 1894 Catholics were forbidden to hold any position, how- [798]
ever small, in the central or local administrative services. None the [186]
less, the end of the century saw the foundation of a nationalist move-
ment, led by Dr. Basanavicius, and the acquisition by the peasantry
of a certain amount of land in small-holdings through the establish-
ment of land banks and co-operative societies. In 1904 the law for-
bidding the printing of the Lithuanian language in Latin characters
was repealed, and the flood of nationalist literature increased in volume.

In the other Provinces the situation of the peasants was even
worse than in Lithuania, owing to the presence of the Baltic Barons,
who were always loyal subjects of the Tsars, and who from the outset
took a leading part in the administration of the Russian Empire.
Under Russian rule the Barons secured the restoration of all privi-
leges of which they had been deprived under the Swedish régime;
moreover, they now created a closed corporation, consisting of 172
families which alone had the right to own land. Various attempts
made by successive Tsars to improve the lot of the peasants were
frustrated by the Barons, and serious rebellions were put down in
1783–4 and again in 1802. After the latter, Alexander I issued an
ordinance in 1804 limiting serfdom, but its effects were nullified by
the Barons. Laws abolishing personal serfdom altogether in Estonia
(1816), Courland (1817), and Livonia (1819)[1] did little to improve
matters, since freedom was of little use to peasants with no claim
either to tenancy or ownership of land. In 1849, however, Alex-
ander II enacted a new Agrarian Law abolishing forced labour and
providing for the purchase or hire of certain lands by the peasant
communes. Under Alexander III (1881–94) a determined policy of 177
Russification was initiated, aimed as much at the German as at the 671
native population; indeed, the later native movement of 1905 may 192
be traced largely to the indirect encouragement which it now
received from the Russian Government's anti-German policy.
Russian law and police organization were substituted for the existing
German system, and the Russian language was made compulsory in
schools. On the other hand, Letts and Estonians were allowed to
hold Government posts. Towards the end of the century, too, there
was an improvement in the material status of the peasantry; the 565
Russian railways brought trade to the ports of Riga and Libau, and
in the towns a small proletarian class grew up which was ripe for the
spread of revolutionary ideas. As in Lithuania, nationalist movements 186
were set on foot, and Young Lett and Estonian parties were formed. 668

These movements, in all three countries, were quick to exploit the

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[1] The first emancipation of serfs in the whole Empire was in the Baltic Provinces.

186 weakening of the Russian control which resulted from Russia's defeat
668 by Japan; the revolution which spread throughout the Empire in 1905 had its repercussions in the Baltic Provinces. In Latvia and Estonia there were peasant risings which developed into *jacqueries* of a peculiarly savage character; harvests were burnt, agricultural machines were destroyed, and considerable damage was done to the large German-Balt and ecclesiastical estates. In Latvia the rising was not only the work of the peasantry, but also of the Social-Democratic party and of a nationalist revolutionary movement known as the *Savieniba*. Petitions were addressed to the Russian Government for universal franchise, freedom of the press and of assembly, the right to teach Lettish in the schools, &c.; and a
[665] Provisional Revolutionary Government was established in Riga. In Lithuania two congresses were summoned to meet simultaneously in Vilna on December 4. 1905; one, consisting of representatives of all the Lithuanian associations, elected Dr. Basanavicius as its president, and voted a resolution demanding the creation of an autonomous Lithuania within ethnographic limits. The other, a congress of the Peasant Union which had been founded by a certain Gabrys, decided not to pay any taxes, to dismiss Russian teachers and pro-Russian municipal authorities, and to establish Lithuanian courts.

661 The disturbances were finally suppressed with the utmost ruthlessness by Russian troops, with the assistance of the German Barons; 3,000 Letts were said to have been tried by court martial, about half their number being sentenced to death. The promises made by the Tsar in the stress of the emergency were not kept, or kept only in part, although each of the Provinces was allowed to send representatives to the Russian Duma which was now brought into existence.
[167] Under the Stolypin Government severe measures of repression were introduced; many of the nationalist leaders, such as Karl Ulmanis in Latvia and Konstantin Paets in Estonia, were driven into exile, and a system of colonization was introduced with the object of encouraging a German 'non-native' class of small-holders which would
[186] tend to support the *status quo*. None the less, in spite of the Russian Government's repressive policy, the national spirit which had failed to carry the day in 1905 survived, in one form or another, until the world upheaval in 1914 provided the occasion for a fresh outburst of activity.

II. THE WORLD WAR AND THE EMERGENCE OF THE INDEPENDENT STATES

726 FOUR factors contributed to the making of the new Baltic States of Estonia, Latvia, and Lithuania during the World War: the fall of the Russian Empire; the German occupation of the border provinces

726 during the early stages of the Bolshevik Revolution; the fall of the German Empire; and, lastly, the determination of the leaders and soldiers of the Baltic peoples themselves. All but the last of these were events of world magnitude, and beyond the power of those peoples to initiate or to prevent.

726 The military history of the Baltic Provinces in the World War may
648 be divided into three phases, corresponding with the three successive tides of armies surging forward, back, and then forward once more, across the border country between Germany and Russia proper.

First, there was the period—short for Lithuania and Courland in the south, relatively long for Livonia and Estonia farther north—when these Provinces were still held by the Russian armies, in whose ranks the Baltic peoples fought loyally.[1] Then came the period of the retreat of the Russians, devastating the country-side as they went, with the Germans hard at their heels. Lithuania and Courland were overrun by German troops by the autumn of 1915. The German advance then came to a halt for a time, and the Russians consolidated their position on a line Riga–Dvinsk–Baranovitchi, which they held for two years. The disintegration of the Russian forces as a result of the March Revolution of 1917 gave opportunity for a fresh drive. On September 3 Ludendorff captured Riga, and by February 1918 the Germans were occupying Livonia and Estonia, and were within a hundred miles of Petrograd. By the Treaty of Brest-Litovsk, which they were forced to sign on March 3, 1918, the Bolsheviks recognized a temporary German 'police occupation' in Estonia and Livonia until peace and order should have been restored,[2] and ceded to Germany all territories west of the line Riga–Dvinsk–Lyda–Pruzhany, including Courland and Lithuania. It was stated that 'Germany and Austria-Hungary intend to decide the future fate of these territories in harmony with their population'. Although this treaty was eventually rendered ineffective by subsequent events, it is significant as revealing the real nature of Germany's aims at expansion in Eastern Europe.[3]

Finally, with the military defeat of Germany by the Allies and the signature of the Armistice on November 11, 1918, a new phase began, in which the German armies gradually evacuated the Provinces, while the Bolsheviks poured in. This last period was the most terrible of all for the Baltic peoples, who had at the same time to fight the

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[1] The part played by two Lettish battalions in the defence of Mitau led, in July 1915, to Russian permission for the formation of a small Lettish national army which distinguished itself on various occasions, and especially by its gallant defence of Riga in 1917.

[2] By the supplementary Agreement of Berlin on August 27, 1918, the R.S.F.S.R. renounced its sovereign rights over Estonia and Livonia.

[3] For a discussion of the implications of the Brest-Litovsk Treaty see J. W. Wheeler-Bennett, *The Forgotten Peace: Brest-Litovsk* (to be published in September 1938 by Macmillan & Co.).

726 648 Germans and repel the Bolshevik invasion. Without the assistance, inadequate though it was, of the Allied Powers, they could hardly have succeeded in establishing their independence.

1. THE FALL OF THE IMPERIAL GOVERNMENT IN RUSSIA, 1917

648 186 It seems clear that, in the days following the March Revolution and the establishment of the Provisional Government in Russia in the spring of 1917, none of the Baltic Provinces contemplated or desired complete detachment from Russia, although they certainly seized the opportunity of making a bid for a measure of autonomy and for much-needed reforms. It was the Bolshevik Revolution at the end of the year that not only enabled, but even forced, them to go farther and to demand complete independence.

648 186 642 *Estonia*. The Estonians, who at the time of the March Revolution were as yet free from German occupation, naturally profited the most by the new situation. At the request of their leaders, Prince Lvov issued a decree or 'Special Law' on April 12 granting local autonomy to Estonia, including the island of Oesel and the northern half of Livonia, where the population was Estonian; the old *Landtag* and other local bodies were replaced by a purely titular High Commissioner, to be appointed by the Provisional Government, and it was provided that an Estonian National Council and subordinate local bodies should be elected by universal, direct, secret, and proportional suffrage. The National Council was to draft a constitution for approval by an All-Russian Constituent Assembly. The provisional Government appointed M. Jaan Poska, the mayor of Reval, as High Commissioner, and by a further decree of July 5, 1917, provided for the elections to the National Council on July 7–8. In the Council, which met on July 14 and elected M. Konstantin Paets as its president, the bourgeois parties and the Labour Group held 60 per cent. of the seats, the Social-Democrats and Social-Revolutionaries making up the remaining 40 per cent. In view of the increasingly serious military situation, the Estonian Administration also obtained permission from Petrograd, in the autumn, to organize Estonian contingents under their own officers.

When the Provisional Government gave way before the Bolshevik *coup d'état* in November 1917, the Estonian National Government, taking advantage of Trotsky's declaration of the right of self-determination for dissident nationalities, proclaimed complete political independence of Russia on November 28. The Proclamation[1] also provided for the immediate election of a Constituent Assembly and for the delegation of the Council's powers, 'during the interruption

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[1] For text see M. W. Graham, *New Governments of Eastern Europe* (I. Pitman & Sons, Ltd., 1928), p. 646.

of its sessions', to a Committee of Elders and to the Administration. 648
The Baltic Barons, on the other hand, declared themselves the sole 186
authorized representatives of the people, proclaimed the definite 642
separation of Estonia from Russia, and appealed to Germany for
military aid against the Bolsheviks.

The immediate consequence of the Proclamation of November 28 [669]
was the temporary arrest of M. Paets and the dispersal of the National Council by the Bolsheviks, who, however, allowed the elections to the Constituent Assembly to take place during January 1918, in the hope of getting a majority of votes for their own candidates. When it became clear that they would not do so, a civil war broke out which was only ended by the arrival of the German armies in February. On February 24, the single day left to them between the flight of the Bolsheviks and the coming of the Germans, the Committee of Elders seized the opportunity to promulgate a manifesto reaffirming Estonia's independence as a Republican State, defining her frontiers, and instituting a Provisional Government under M. Paets. The German occupation during the following months postponed all further constitutional development until after the Armistice of November 11, 1918.

Latvia. The history of the Lettish nationalist movement up to the 648
signature of the Treaty of Brest-Litovsk in March 1918 ran a some- 186
what similar course, and thereafter suffered a similar temporary 668
eclipse until the Armistice was signed; for, although the southern half of what is now Latvia, with the exception of Latgale, was from the summer of 1915 onwards under German occupation, Lettish nationalists in the northern half and in Petrograd were able to conduct negotiations with the Imperial and Provisional Governments in Russia, and later to defy the Bolshevik authorities in much the same way as did the Estonian leaders, though with rather less success.

Towards the end of the Imperialist régime, when half the inhabi- [575]
tants of Courland were refugees in Russia, the Lettish deputies of the Duma, together with representatives of the exiled Letts, among them J. Čakste and Z. A. Meierovics, formed a Latvian Refugees' Committee in Petrograd, which tried to obtain promises of autonomy and reform from the Government. When the Provisional Government assumed authority in the spring of 1917, they were urged to establish an autonomous administrative district consisting of southern Livonia, Courland, and parts of Vitebsk; less amenable to Lettish than to Estonian entreaties, they did, however, issue decrees appointing new and more democratic-minded governors and permitting elections to local government bodies in the unoccupied districts.

In Latvia, as in Estonia, the Bolshevik Revolution precipitated

648 matters. On November 16, 1917, representatives of all parties in
186 the unoccupied territory, except the Bolsheviks, met at Walk (in
668 Livonia) and formed a Latvian National Council. Complete independence was implicit, though not explicit, in the declaration of the Council that Latvia was an autonomous unit whose status, and whose domestic and foreign policy, could only be decided by a Latvian Constituent Assembly. Meanwhile, in December, M. Karl Ulmanis and the other Lettish leaders, who had been working under cover in the occupied territory, formed a secret democratic *bloc* in Riga, consisting of all except the Germanophil and Bolshevik groups, which made a declaration similar to that of the National Council at Walk.

The Bolshevik reply to such action was to abolish the local government bodies set up by the Provisional Government, to issue new electoral decrees which excluded the bulk of the peasantry—as being counter-revolutionary in their outlook—from the franchise, to suppress the National Council, and to establish Red Guards throughout the unoccupied districts. But their military situation was becoming desperate; the Germans were advancing, and negotiations for Brest-Litovsk were in process. The Latvian nationalists took courage; on January 5, 1918, the Lettish leader, M. Janis Goldmanis, reaffirmed before the All-Russian Constituent Assembly, convened in Petrograd, the resolutions of the National Council at Walk. The Council itself met again on January 15 in Petrograd to declare Courland, South Livonia, and Latgale an independent democratic Republic, and to create administrative machinery and an embryo Ministry of Foreign Affairs. Almost immediately France granted *de facto* recognition to the new Latvian Government.

[727] By the end of February,[2] however, the whole of Livonia was under German occupation, and the Brest-Litovsk Treaty recognized a German protectorate in Courland and a temporary German 'police occupation' in Livonia. The nationalist movement was driven to ground until after the Armistice, although, in July 1918, the National Council met to proclaim Latvia's independence under an international protectorate, and to send MM. Čakste and Meierovics and other representatives abroad to secure recognition and support from the Allied Powers.

Lithuania. Since practically the whole of Lithuania was in German occupation from the autumn of 1915 onwards, the movement for independence developed there on somewhat different lines from the Latvian and Estonian movements; it was less affected by the political and military history and military fortunes of Russia than by those of Germany. Tolerance of its existence and concessions to its aspirations had to be won, not so much from the Provisional Government or the Bolsheviks, as from the German military author-

[2] [1918 --Analyst]

Lithuania
Estonia and Latvia

ities. At first it must have seemed possible to the Lithuanian 648
deputies in the Duma, who, early in 1917, organized a Lithuanian 186
National Council in Petrograd to demand political autonomy, that 668
Russia might yet prove strong enough to protect, and generous enough to grant autonomy to, her border provinces; for, although after the fall of the Imperial Government they notified their compatriots in both German and Russian Lithuania, without permission of the Provisional Government, of the existence of the Lithuanian National Council, and appointed a provisional administrative committee to deal with Lithuanian affairs in Russia, yet, at a general conference of Lithuanians in Petrograd some months later, while extremists were demanding complete independence and the convocation of a Constituent Assembly, the more moderate elements were still in favour of a *rapprochement* with the Provisional Government. The latter, however, by ignoring their advances and refusing to make any promises such as had been made to Finland, Poland, or Estonia, lost the last opportunity of keeping the Lithuanian nationalist movement within their control. Finally, when the Bolshevik Government suppressed the Lithuanian National Council, a conference, attended by all but the extreme Left parties, was organized at Voronezh to take its place; this defined the frontiers and outlined the constitutional programme of a new independent Lithuanian Republic, demanded the immediate evacuation of the German armies and free access to the Baltic Sea, and decided to bring its claim to the attention of the Allied Powers.

2. THE GERMAN OCCUPATION

After suffering the ravages of the retreating Russian army, the 727
Baltic Provinces were subjected, for a period varying from three 648
years in Lithuania and Courland to nearly a year in Estonia and Livonia, to all the miseries of a German military occupation, with its accompaniments of rigorous requisitioning and political terrorization. In spite of its devastating economic effects, however, the German occupation probably saved the Provinces from irretrievable submergence in the Soviet Union, and, as things turned out, by keeping the Bolsheviks out, made independence ultimately possible when the Germans in their turn should have suffered military defeat by the Allies.

Estonia and Latvia. The failure, during this period, of the efforts [186]
of the German military authorities, supported by the German-Baltic Barons, to threaten or cajole the peoples of any of the three Provinces into adopting some form of federation with Germany, is an indication that the Baltic races felt that they had more to fear from German than from Russian domination. The German plans

727 included the creation of a Duchy of Courland and a Duchy of Estonia
648 and Livonia in personal union with the Crown of Prussia, and the
organization of extensive German colonization in those Provinces.
To this end, in each Province the old *Landtag* and *Landesrat*, consisting of representatives of the Baltic Barons, were hastily revived.
On March 8, 1918, the *Landesrat* of Courland invited the Kaiser to
accept the Grand-ducal crown of Courland; the invitation was
graciously accepted. An unsuccessful attempt was made to persuade
the district Elders of Estonia and Livonia, summoned to a conference
at Riga on April 10 for the purpose, to consent to union with the
Prussian Crown; the fear of German colonization was too strong.
M. Konstantin Paets, the chief organizer of resistance to such a
scheme, was imprisoned in a Polish concentration camp. In default
of popular consent, Baron Dellingshausen, the leader of the Baltic
Barons in Estonia, sent a request for union to the Kaiser, who con-
[423] veyed his 'consent' to it on April 21. In July 1918 agrarian regula-
tions were issued providing for a Colonization Union in Courland, at
whose disposal the Baltic Barons placed a third of their landed
property for the purpose of fresh German colonization: all private
land agreements for the last thirty years were to be annulled, without
any provision being made for expropriated peasants.

728 *Lithuania.* In Lithuania, hoping to make capital out of the Russian
649 Provisional Government's unsympathetic attitude towards the
186 Lithuanian nationalists, and with a view to creating a body which
[668] would lend itself to the furtherance of annexation schemes, the
German authorities rashly permitted a nationalist movement to
take shape in the autumn of 1917. Immediately after the Russian
evacuation of Vilna, a conference of over 200 leaders, selected by
an organizing committee, met there and passed a resolution that
Lithuania should become an independent democratic State within
her ethnographic frontiers, and that a Constituent Assembly should
be convened. The conference appointed, for the conduct of affairs
in the interim period, a National Council or *Taryba*, consisting of
twenty-six members, including six representatives of minorities, with
M. Antanas Smetona as its president. Under German pressure, the
Taryba adopted further resolutions on December 11, which, while
claiming the reconstitution of an independent State with Vilna as its
capital, omitted all mention of a Constituent Assembly, and even asked
for German aid during the period of reconstruction in the form of a
'perpetual and solid alliance' with the German Empire. In a rescript
of March 23, 1918, the Kaiser granted *de jure* recognition of Lithuanian independence on the basis of the December resolutions; but by
this time the *Taryba*, realizing the character of the peace negotiations
with Russia at Brest-Litovsk, to which they had been refused per-

mission to send a delegate, had made a new official declaration of 728
Lithuanian independence on February 16, 1918, this time on the 186
basis of the original Vilna resolutions of September 1917, with a 648
renewed demand for a Constituent Assembly.

The German General Staff now conceived the idea of a personal union of Lithuania with Saxony, under a monarchical government. In order to thwart this plan, and under pressure from the clerical party in Germany, the *Taryba*, on June 14, 1918, invited the Catholic Duke William of Urach—alleged to be a Württemberg descendant of the old Lithuanian king Mindaugas—to ascend the throne of an independent Lithuania as Mindaugas II. The invitation was accepted, in spite of the strong opposition of a section of the *Taryba* itself, not to mention that of the German General Staff. But, with military defeat growing daily more certain, the latter's authority was beginning to wane, and on October 20 the new Chancellor, Prince Max of Baden, informed the *Taryba* that it had been decided to delegate full legislative and administrative power to a Lithuanian Government, as soon as it should be constituted, and to remove the
German occupying forces as soon as possible. The *Taryba*, therefore, 642
on November 2, withdrew the invitation to the Duke of Urach, leaving the form of government to be decided by the future Constituent Assembly. Meanwhile, constituting itself as the legislative body, it elected a triumvirate, consisting of MM. Smetona, Staugaitis, and Šilingas, who on November 5 invited M. Voldemaras to form a non-party Cabinet and to negotiate with the various nationalities.

3. THE GERMAN EVACUATION AND THE BOLSHEVIK INVASION

As soon as the Armistice of November 11, 1918, was signed, the leaders in each country set about the task of organizing their respective administrations, consolidating the political independence of the new Governments, and finally drafting constitutions.

The Estonian National Council met on November 20, 1918, after nine months' rustication; M. Paets was released from imprisonment, and the Government set up under him on February 24 was confirmed in its authority.

In Latvia, M. Karl Ulmanis's democratic *bloc* was now joined by 642
the members of the Latvian Refugees' Committee and of the Latvian 646
National Council from Petrograd, and an all-Latvian Council of State was formed of some 100 members of all parties, except the Social-Revolutionaries and Bolsheviks.[1] The Assembly met at Riga on November 18, 1918, elected M. Čakste as its president, and formed

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[1] About two-thirds of the seats, which were allotted according to the votes received by these parties in the elections under the Provisional Government, were held by peasants and workers, while the remaining third of the members were merchants, manufacturers, and representatives of the national minorities.

642 a Provisional Government with M. Ulmanis as Prime Minister and
646 M. Meierovics as Foreign Minister, pending the convocation of a Constituent Assembly.

642 In Lithuania, M. Sleževičius became Prime Minister in the Cabinet formed in November 1918 by M. Voldemaras, when the latter left to attend the Peace Conference in Paris. A provisional National Assembly, the 200 members of which were chosen by mass meetings all over the country, met in Kaunas (Kovno)[1] from January 17 to 23, 1919, to draft a republican constitution and to re-elect and expand the *Taryba*; M. Smetona was elected President of the State on April 4.

728 Before the constitutions could be drafted, however, the new
648 Provisional Governments had to concentrate their whole energies on the military situation brought about by the Armistice of November 1918. The Armistice Convention had provided that the German troops were to evacuate all territories which were formerly a part of the Russian Empire 'as soon as the Allies shall consider this desirable, having regard to the interior conditions of those territories' (Article 12), and were to 'cease at once all requisitions, seizures, or coercive measures for obtaining supplies intended for Germany in . . . Russia' (Article 14). It was the intention of the Allies that the German forces should do their utmost to stem the Bolshevik advance, and that, when their services were no longer needed, they should withdraw from the Baltic Provinces without reaping any political reward for their efforts. This was clearly too much to expect, and the Germans, by withdrawing rapidly and without permission in November 1918, and by removing all supplies of arms, food, and even rolling-stock as they went, in violation of Article 14, not only facilitated the Bolshevik invasion, but did their best to put the new Baltic Governments in the position of having to turn to them for assistance.

648 At the end of November the Red Armies had begun to penetrate
721 into Estonia from Narva and the Finnish coast; on January 5, 1919, they were in Vilna, and the Lithuanian Government had retired to Kaunas, while the Latvian Government had been driven from Riga to take refuge at Liepāja (Libau). By the end of February the Bolsheviks had overrun Latvia and a large part of Lithuania.

[723] In Estonia, General Laidoner and Captain Pitka organized an army and marine force from the remnants of the Estonian regiments of 1917, and—with the aid of Finnish loans and volunteers, gifts of ammunition and foodstuffs from Great Britain, and the occasional presence of British warships in Tallinn (Reval) and Liepāja under Admiral Sinclair—put up a heroic resistance, and by the beginning of February 1919 had temporarily cleared the country.

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[1] Vilna was then occupied by the Bolsheviks.

For a short time Estonian troops supported General Yudenich's 648 north-western corps of the White Russian Army, assisting on May 25 721 in the capture of Pskov. Since, however, both he and Admiral Kolchak were absolutely opposed to the recognition of the independent Republics, the Estonians withdrew their troops during the Bolshevik counter-offensive and recapture of Pskov in August. Thereupon the Allies sent a British general to Tallinn on August 10 to compel Yudenich to form a 'North-western Government' and sign a treaty with the Estonians. After the failure of Yudenich's second offensive in October, when his troops actually reached the suburbs of Petrograd, he retired once more into Estonia, and his army was finally dispersed.

In Latvia, where an army had been organized under Colonel Kalpaks, and later under General Balodis, reinforced by the German-Baltic *Landeswehr*, a new situation was created in February 1919 by the arrival of the German commander, General von der Goltz, ostensibly in accordance with the terms of the Armistice, but actually with the intention of coming to an understanding with the White Russian armies, driving out the Bolsheviks, and finally restoring German control over the Baltic States. With his assistance the [649] German Balts in Latvia carried out a *coup d'état* at Liepāja, arrested the Latvian Government on April 16, and set up a new Government with a Latvian Pastor, M. A. Niedra, as its nominal head. Von der Goltz then proceeded northwards, and with the aid of the Latvian troops, who saw that the first necessity was to drive out the Bolsheviks, recaptured Riga on May 23 and drove the Red Armies to the frontier. A realignment of troops now took place; the Latvian and Estonian national forces combined to clear Livonia of Bolshevik troops, then turned on von der Goltz and the German Balts, defeated them at Cēsis (Wenden) on June 21, and drove them out of Northern Latvia.

Intervention by the Allied Powers. Perceiving at last the danger of 648 relying on Germany to carry out the terms of the Armistice in the Baltic States, the Allied Powers decided on May 23, 1919, to send an Allied Military Mission, under General Sir Hubert Gough, to deal with the local German command. They had already sent Notes on April 23 and May 4 demanding the reinstatement of the Latvian Government, and, on June 18, Marshal Foch ordered the Germans to stop all farther advance towards Estonia and to begin immediate evacuation of the Baltic region. As a result of Allied intervention, von der Goltz was forced to evacuate Riga and sign an armistice on July 3, and four days later the Latvian Government was reinstated there. Hitherto, all the protests of the Allied Powers had been disregarded by the German military authorities, but, when a further

648 remonstrance of August 1 was also ignored, the Supreme Council finally threatened to use economic pressure to enforce evacuation. At the suggestion of the German Government, a Mixed Commission was then formed which proceeded to Berlin, and thence to Tilsit in November, to deal with the question.

[721] Meanwhile, General von der Goltz had been replaced by the adventurer Avalov-Bermondt, who in October besieged Riga. This attack was successfully resisted, and as a result of the efforts of the Mixed Commission, the German evacuation now began in earnest; by the middle of December it was complete throughout the Baltic States.

648 728 *Peace Treaties and Recognition by Foreign Powers.* It yet remained to expel the last remnants of the Bolshevik armies; but in January 1920 the Latvian troops, aided by Poland, succeeded in clearing Latgale, and by that time Estonia was already negotiating peace with Soviet Russia. She had refused a separate armistice offered by the latter at Pskov in September 1919, fearing an attempt to weaken, by disuniting, the Succession States; but, on December 31 of that year, in the face of a Soviet refusal to conduct joint negotiations with all three Governments at once, MM. Poska and Piip consented to a separate armistice, and on February 2, 1920, the Treaty of Tartu (Dorpat) was signed, whereby the R.S.F.S.R. accorded *de jure* recognition to Estonia's independence. Lithuania followed suit with the Treaty of Moscow on July 12, 1920, and Latvia on August 11, 1920, with the Treaty of Riga.[1]

It remained for Estonia to fix with Latvia their mutual frontier, and to settle the disputed question of the town of Valga (Walk), which was finally partitioned between the two countries by a Convention of March 22, 1920, through the mediation of Colonel Tallents. Latvia made peace with Germany by a Protocol of July 15, 1920; the delimitation of the Latvian-Lithuanian frontier by a court of arbitration, under the presidency of Sir James Simpson, was not completed until March 1921.

Lithuania was less fortunate, since, even after the Russian evacuation, her eastern and western frontiers were still in dispute. Vilna, which she regarded as her capital, was also claimed by Poland; and when the Bolsheviks had evacuated the city it was the Poles and not the Lithuanians who entered it on April 20, 1919. The fortunes of the city and district of Vilna during the Soviet-Polish war, which continued until the autumn of 1920, are related elsewhere.[2] Poland's final settlement of the question in her own favour by the Zeligowski *coup* of October 6, 1920, was ultimately recognized by the Conference

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[1] For the terms of these settlements, see below, pp. 65–6.

[2] For the history of the Vilna controversy, see below, pp. 89–93.

of Ambassadors on March 15, 1923. On the western frontier, 648
Lithuania was more successful; the Allies had compelled Germany to 728
cede the Memel area to them with a view to its later cession to [167]
Lithuania, but, while they were still negotiating on the subject, the Lithuanian Government took matters into its own hands, and on January 10, 1923, sent troops to occupy the area by force. This *fait accompli* was recognized by the Allies in the Memel Convention of 1924.[1]

One of the last acts of the Estonian Committee of Elders before 648
the exchange of Bolshevik for German terrorization in 1918, had been the issue of a declaration that 'Estonia must immediately be declared a neutral country, and to this end international guarantees must be sought from foreign Powers'. They had followed this up by sending representatives abroad to secure support and recognition from the Allies, and the Latvian and Lithuanian National Assemblies had pursued the same policy. At that time the Allied Powers were glad enough to do what little they could in the way of moral encouragement of any organization which was in conflict with Bolshevism.[2] *De jure* recognition of the Baltic States was delayed, however, owing to the persistent hope entertained by the Allied Powers in general, and by President Wilson in particular—a hope encouraged by Kolchak and the Russian reactionaries—that the Bolshevik régime might yet be destroyed. The Powers would have liked, therefore, to preserve a territorially indivisible Russia which could ultimately be handed back intact in the event of some form of constitutional monarchy being established. But the treaties concluded between the Baltic States and Soviet Russia in 1920, and the disappearance of the last hopes of a successful intervention, paved the way at last for the acceptance of the new order as a permanent one. Great Britain and France granted *de jure* recognition to Estonia and Latvia on January 26, 1921; and, on September 22 of the same year, the three Baltic States were admitted as Members of the League of Nations, although Lithuania did not, owing to the Vilna controversy, receive *de jure* recognition from Great Britain and France until December 20, 1922.[3]

Constitutions Adopted. Meanwhile, the new Governments had 642
been pushing forward with the work of reconstruction and constitution-drafting, in so far as circumstances permitted. In Estonia a Constituent Assembly was elected in April 1919; the Paets Cabinet resigned, and was replaced by a new bourgeois coalition Government

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[1] For an examination of the Memel question, see below, pp. 93–102.

[2] A limited and provisional *de facto* recognition was accorded to Estonia by France and Great Britain in March, and by Italy in May 1918; to Latvia by France in January, and by Great Britain in November 1918; and to Lithuania by Great Britain in September 1919.

[3] The U.S.A. delayed recognition of all three States until July 27, 1922.

142 under M. Otto Strandman. A provisional Constitution adopted on June 4 was replaced, a year later, by the definitive Constitution of June 15, 1920.

[146] In Latvia, where the Provisional Government was even more hampered than its counterpart in Estonia by the struggle with the German and Bolshevik armies,[1] elections to the Constituent Assembly were not held until April 1920. M. Čakste was elected President of the Assembly, which consisted of peasants, Socialists, and members of the other bourgeois parties (including the minorities), in roughly [145] equal proportions. After the adoption of a provisional Constitution on June 1, the Ulmanis Cabinet resigned and was reconstituted with the support of all except the Socialists; but M. Ulmanis gradually lost the support of most of the Left parties, and was eventually succeeded by M. Meierovics, who formed a coalition Government including the Agrarians, Democrats, and some of the Social-Democrats. The definitive Constitution was adopted on February 15, 1922. The first constitutional Parliament, or *Saeima*, met on November 7, 1922, and elected Čakste as President of the State.[2]

In Lithuania elections were held in April 1920 for the Constituent Assembly, which met at Kaunas on May 15, ratified the proclamation of independence, and proceeded to the elaboration of a provisional constitution and the appointment of a new government—the *Taryba* and the Cabinet having resigned. M. Stulginskis, the President of the Constituent Assembly, was chosen to act as temporary President of the Republic, and Dr. Grinius formed a Cabinet on June 8. The final Constitution was not promulgated until August 1, 1922.

III. INTERNAL CONSOLIDATION IN THE SUCCESSION STATES

178 727 To appreciate the complexity and wide range of the problems demanding the immediate attention of the new Governments in the early days of independence, it is necessary to picture the devastating effects of the six years of military campaigns, occupations, and invasions through which the Baltic Provinces had just passed, the complete collapse of economic life, the break-down of administrative machinery, and the wastage of material and of man-power which they brought in their train. Everything had to be built up from the very beginning; not only new constitutions, but new law-courts, new schools, and new central and local government bodies had to be set up; and every activity was hampered by the relative inexperience of leaders who up till now had always been in opposition, and by the virtual disappearance of the former Russian and German official classes.

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[1] See above, p. 25.

[2] Čakste was re-elected President in 1925, and held office until his death in 1927.

000 virtual disappearance of the former Russian and German official classes.

178 554 565 Moreover, the social structure of the former Russian provinces had crumbled, and the Baltic peoples, who had hitherto been the least considered members of society, were now masters in their own house, chaotic though that house might be. This shift in the balance of power gave rise to a whole series of special problems concerned with the regulation of the relations between the various sections of the community, ranging from the redistribution among the peasants of land which had formerly belonged to the large estate owners, to the definition and stabilization of the position of the national minorities, and the adjustment of the relations between the States and the various religious denominations. It is proposed to reserve discussion of the constitutional and political history of the new States till a later chapter, and to summarize here the ways in which they handled some of the other problems with which they were confronted.

1. AGRARIAN REFORM

423 471 The first concern of the Baltic Governments was the expropriation of the great landed estates and their redistribution among the peasants. Even before the new Constitutions had been drafted, agrarian laws were passed in Estonia in October 1919, and in Latvia in September 1920, while in Lithuania there was a whole series of decrees starting in December 1918, and culminating in the Agrarian Law proper in April 1922.

In Estonia, the reforms were effected almost entirely at the expense of the Baltic Barons;[1] in Latvia, the burden was borne largely by the German Balts, the Poles, and Russians, and some fifty Latvian landowners; while in Lithuania the chief sufferers were the Poles and Russians, especially those who had obtained land on privileged terms from the Russian Government and such institutions as the Nobles' Bank, the Peasants' Land Bank, and the Orthodox Church, the German-Balt element here being negligible.

The treatment meted out to the dispossessed landlords was far more severe in Estonia than in the other two countries, for here they were deprived even of a minimum amount of land for their own use, whereas in Latvia and Lithuania they were at least allowed to retain small residual estates ranging in size from 50 to 100 hectares. In the matter of compensation the Latvian régime was the most severe, for, although the Constituent Assembly had recognized its desirability in principle, a law was passed in April 1924 providing that there should be no indemnity. The limited amount of compensation

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[1] About 86·5 per cent. of the expropriated land belonged to the Baltic Barons, 2·8 to Russians, 6·4 to foreigners, and 4·3 to Estonians.

423 provided in Lithuania by the law of 1922, and in Estonia by a law
471 of March 5, 1926, proved in practice to be negligible, owing to the currencies in which it was expressed.[1] Petitions on the subject of compensation presented to the League of Nations by the German Balts of Estonia (1926) and Latvia (1925), and by Polish landowners in Lithuania (1925), were all rejected on the ground that agrarian reform constituted a social, and not a minority, question.

The ways in which the lands thus nationalized by the agrarian laws were distributed, and the effects of the redistribution on the economic life of the three countries, are described elsewhere.[2] It is enough here to stress the fact that the chief beneficiaries were the landless agri-
423 cultural labourers, the small-holders, and the tenant farmers. The
178 abolition of the semi-feudal society which had survived up to the World War, and the creation of a large class of peasant proprietors, were factors which very largely determined the lines on which the political life of the new Republics would develop. They explain, in part, not only the failure of Communism to take root in these countries in spite of the proximity to Soviet Russia of two, at least, of them, but also the gradually declining influence of the Socialist and other Left parties in the years immediately following the setting up of the Republics, and the eventual establishment of agrarian dictatorships in Estonia and Latvia in 1934.

2. National Minorities[3]

563 *Lithuania*. At the last census, taken in 1923, the national minor-
162 ities in Lithuania together formed 16·12 per cent. of her total population, which then numbered 2,028,971.[4] The Jews, the largest group,[5] were chiefly to be found in the towns, and played an important part in the business life of the country, whereas the Russian minority consisted chiefly of peasants who settled in certain parts of the country more or less *en masse*, under the Tsarist régime, together with some 4,000 White Russian peasant colonists. The Germans,

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[1] In Estonia compensation was based on the pre-War value of the rouble; for the Lithuanian arrangements, see below, p. 107.

[2] See below, pp. 105–9.

[3] Much of the material for this section was obtained from C. A. Macartney, *National States and National Minorities*, Oxford University Press, 1934.

[4] Table 1. *Population of Lithuania (excluding Memel) According to Race* (1923 *census*).

	Lithuanians	*Jews*	*Russians*	*Germans*	*Poles*	*Letts*	*Others*
Number . . .	1,701,863	153,743	54,881	29,231	65,599	14,883	8,771
Percentage of total population . .	83·88	7·58	2·70	1·44	3·23	0·73	0·44

[5] The density of the Jewish population in Lithuania, which resembles that of Poland and Eastern Rumania, is due to the fact that Lithuania, before 1918, formed part of the Russian 'Pale', within which alone the Jews were allowed to settle without special permission. Thus the Jewish problem in Lithuania differs radically from that in the other Baltic countries.

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162 who estimate their numbers considerably higher than does the official census, lived for the most part near the East Prussian frontier, where they settled as small peasants and artisans in the last century. Small Polish and Lettish minorities inhabited the districts bordering on
565 their respective countries of origin. The bulk of the Lithuanians themselves belonged to the peasant and farmer class. There were, however, fairly large bourgeois, clerical, and intellectual classes; the nobility, in so far as it still existed, resided for the most part in Poland, and was in fact almost entirely Polish.

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642 The legal status of the minorities was regulated by Articles 73 and 74 of the Constitution of December 1922, which provided that national minorities, forming 'an appreciable part of the citizens', might administer autonomously the affairs of their national culture and elect the necessary bodies to conduct these affairs in the manner prescribed by law. They might also impose taxes on their members for the needs of national culture, and might avail themselves of a proportion of the sums set aside by the State and the local government bodies for purposes of education and charity, in so far as their needs were not satisfied by the general establishments maintained by those bodies.[1]

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671 In accordance with the requirements of the League of Nations, on May 12, 1922, shortly after her admission to that body, Lithuania made a Declaration modelled on the Polish Minority Treaty of June 28, 1919. This guaranteed to Lithuanian nationals who belonged to racial, religious, or linguistic minorities the same treatment in law and in fact enjoyed by other nationals, as well as the right to maintain and control at their own expense charitable, religious, and social institutions, schools, and other educational establishments, and to use their own language and practise their own religion therein.[2] Provision was to be made, in towns where there was a considerable proportion of Lithuanian nationals belonging to linguistic minorities, for the instruction of children in the State primary schools in their own

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[1] These rights and privileges were confirmed by Section VII of the Constitution of May 25, 1928.

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TABLE 2. *Minorities and Education in Lithuania.*

Type of school	*Year*	*Total no. of schools*	*Lithuanian*	*Jewish*	*Russian*	*German*	*Polish*	*Latvian*	*White Russian*	*Diverse*
Primary	1928-9	2,431	2,185	135	15	18	30	8	..	40
"	1935-6	2,308	2,147	100	3	10	11	13	..	15
Secondary	1928-9	122	83	20	2	3	3	1	..	1
"	1935-6	107	74	24	1	3	3	1	..	1
		students								
University	1928-9	3,812	2,555	1,070	47	30	85	10	7	8
"	1935-6	3,223	2,555	486	40	30	84		13	6

563 671 tongue, without prejudice to the obligatory teaching of Lithuanian as an additional language. Special clauses (Nos. 7 and 8) extended freedom to the Jews in all educational and religious matters. All persons born in Lithuania after the date of the Declaration, and unable to claim another nationality by birth, were recognized as Lithuanian nationals. The Declaration reproduced the 'guarantee article' of the Polish and other minority treaties, and the ordinary minority procedure was adopted.[1]

563 798 In spite of this good beginning, the treatment of minorities in Lithuania has not improved with the years. Nor was any great effort made to implement the promises of cultural autonomy described above. An autonomous organization established by the Jewish community in 1919, consisting of a National Council and a number of local branches, was abolished by a Christian-Democratic Government in 1924, and no other national minority has so far successfully availed itself of the right of cultural autonomy which it is supposed, in theory, to enjoy.

563 186 871 During the short period of parliamentary government the minorities had already begun to suffer from the ultra-nationalism of the Lithuanian parties, which was accentuated, especially with regard to the Poles, by the interminable Vilna controversy. After the establishment of the Voldemaras dictatorship in 1926, nationalist feeling ran higher than ever, and forty-eight Polish schools were shut. In August 1929 there were reports in the *Berliner Tageblatt* of pogroms against the Jews in Kaunas—always a centre of unrest owing to its high percentage of Jewish, German, and Polish inhabitants—and at Slobodke and Shanz, and there were general complaints that the State exercised too much control over the minority schools. Similar complaints were made, later on, against the Tubelis Administration, although in actual fact most of the Polish schools had been reopened. In August 1934 anti-Jewish outbursts occurred in Kaunas and elsewhere.

Since Herr Hitler's advent to power there has been a considerable amount of German propaganda in Lithuania with the particular object of securing the reincorporation of Memel in Germany.[2] The

[1] Jewish petitions and memoranda were submitted in December 1921 and in June and September 1925. The Polish Government made several complaints of the general treatment of the Polish minority in Lithuania in 1921 and 1922; in 1924–5 a number of petitions from the 'Committee of Polish Exiles', referring to linguistic, educational, and agrarian reform questions, were dealt with by the League Council. In August 1928, 34 Russians submitted a complaint relating to expropriation, which was considered by the Council in its 55th–56th Sessions, but which, in view of the remedial measures taken by the Lithuanian Government, was finally dismissed in January 1930. (See *League of Nations Official Journal*, xi, No. 8, p. 967.) A similar petition from 21 Ukrainians in November 1927 was also dismissed by the Council on September 8, 1928. (See *League of Nations Official Journal*, ix, No. 10, p. 1493.)

[2] The question of the minority in Memel is dealt with below, pp. 93–100.

Lithuania
Latvia

grievances of the German minority itself have been concerned chiefly 563
with the exclusive use of the Lithuanian language in schools, and 871
with the Government's policy of trying to compel German children 186
to attend Lithuanian schools. In 1936 the Poles joined with the Germans in protesting against such measures, and against the restrictive supervision of the press.

Latvia. The national minorities in Latvia formed a larger propor- 563
tion of the total population[1]—amounting in 1930 to 23·4 per cent.— 565
and played a correspondingly more important part in political life than did those in Estonia or Lithuania. The majority of the Lettish population are small peasants, with a certain number of artisans and labourers and a very small middle class. The large Russian minority also consists chiefly of peasants—many of them refugees—who are settled almost entirely in the frontier districts, whereas the Jews have tended, as usual, to concentrate in the towns. The German minority is made up mainly of expropriated landlords and of merchants, over two-thirds of whom live in Riga. The Poles, most of whom belong to the small landowning and middle classes, tend, like the Russians, to congregate in the border districts.

The Latvian Constitution of 1922 contained no reference to the 563
position of the minorities, although the guarantee of their cultural and national rights had been one of the planks of the 'Political Platforms of the National Council' in 1918. A law of December 6, 1919, however, providing that Lettish should be the language in the law-courts, permitted the use of German and Russian where necessary.[2]
Moreover, on December 18, 1919, a 'Law of Scholastic Autonomy' 563
was enacted, providing for the establishment of a council for each of 871
the more important minorities, to have complete control in respect of the types of schools set up, the kind of instruction given, and other educational matters.[3] A specified proportion of the Budget was

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[1] TABLE 3. *Population of Latvia According to Race.*

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Race	*1920*		*1930*		*1935*	
	Number	*Percentage of total*	*Number*	*Percentage of total*	*Number*	*Percentage of total*
Lettish	1,138,536	80·4	1,394,957	73·4	1,472,612	75·50
Russian (including White Russian) . . .	118,023	8·9	237,809	12·5	233,366	11·97
Jewish. . . .	60,892	4·3	94,388	4·9	93,479	4·79
German . . .	45,315	3·2	69,855	3·7	62,144	3·19
Polish	31,154	2·2	59,374	1·4	48,949	2·51
Others (including Lithuanians and Estonians) .	14,161	1·0	33,593	0·9	39,952	2·04

[2] This privilege was confirmed by a circular of the Ministry of Justice on December 4, 1920, and again by a pronouncement of the Supreme Court of Appeal in January 1931.

[3] Such councils, while acting within a special Minorities Department of the Ministry of Education, would each include a chairman and three other delegates nominated by the

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by the Socialist Opposition through the German minority's eleventh- 563
hour renunciation of the subsidy. In the following November a Bill 186
tabled by Socialist initiative was passed, depriving members of the [423]
national minorities of the right to benefit from the distribution of confiscated lands to ex-servicemen, on the ground that they had not shared in the struggle for Latvian independence. These moves, which were primarily designed to overthrow the Government by creating a strong nationalist feeling, were regarded by the German minority as an insult aimed directly at themselves, and they proceeded to withdraw their representative, Herr Berent, from the Cabinet as a protest.

In 1931, under the bourgeois-conservative Ulmanis Government formed in May, and later under the nationalist-bourgeois Skujenieks Ministry of November, there were further attacks on the privileges of the minorities. A new law prescribing the exclusive use of Lettish in
the *Saeima*[1] was rejected in December of that year, but an emergency [259]
decree issued in October deprived the Germans of all rights over Riga Cathedral, its museum, and its vicarages, which had been in their hands for over 700 years, a measure which aroused the more resentment since a proposal to this effect had already been rejected by the *Saeima* in the previous May and by a plebiscite held in the summer.

The Polish minority, too, came in for its share of attention in the 563
autumn of 1931; the closing of six elementary Polish schools, the 871
suppression of a Polish newspaper, the suspension of the Polish 883
League of Catholic Youth and the Association of Latgalian Poles, and the latter's final dissolution, led to the resignation of one of the Polish deputies in the *Saeima*. But, when the wave of strong nationalist feeling due to the elections had subsided, conditions improved somewhat, and in March 1932 the Poles were allowed full cultural autonomy again.

Under the dictatorship established in May 1934 the privileges of 563
the minorities sustained a fresh series of assaults. Two decrees were 871
issued in June; the first providing that, in families where either of the 191
parents was of Lettish nationality, the children must attend Lettish schools, and that, where the father and mother belonged to different national minorities, the father's nationality, rather than the language spoken in the household, was to be the decisive factor; the second prescribing Lettish as the sole written or spoken language in all State and communal services, except in districts at least half of whose inhabitants were registered at the last census as speaking a language other than Lettish. In July the German Autonomous

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[1] Hitherto, both Russian and German had customarily been spoken in the *Saeima*, in addition to Lettish, though there was no law specifically permitting their use.

563 571 191 Educational Board was abolished, and special officials (a German, a Russian, a Pole, and a Jew) have since been put in charge of the educational affairs of their respective national groups. A further blow was struck with the issue of a new decree in January 1935, requiring all public and private economic undertakings to keep their books and conduct their correspondence and general business in the Lettish language. In June twelve Polish schools were closed.

563 475 648 Finally, on New Year's Day of 1936, came the unkindest cut of all, when decrees were issued setting up State Chambers of Trade and of Industry and Commerce, and providing for the eventual dissolution of other economic organizations such as the German guilds, which had existed for some 700 years, and the transfer of their property to the new Chambers or to the local administrations. This measure aroused the resentment not only of the German minority in Latvia, which presented a memorandum on the question to the Government, but also of the German Government, which took up the cudgels on their behalf. On January 16, 1936, the Latvian Minister in Berlin handed in a protest against the violent anti-Latvian press campaign which ensued; on the 22nd the German Minister in Riga called on President Ulmanis, but the latter protested firmly against any German interference in Latvian affairs. Soon after, in March, a secret organization believed to have connexions with Germany was discovered; the arrest of some thirty-five German Balts followed, and, on April 1, a decree was issued dissolving all the economic organizations which had not already complied with the economic decrees of the previous January.[1]

Estonia. The bulk of the Estonians themselves belong to the small 565 563 162 peasant class, which was emancipated from serfdom in the last century; a few are labourers and artisans, and there is a small middle class. The national minorities, which in 1934 amounted to 11·8 per cent. of the total population of 1,107,059,[2] consist chiefly of Russians, Germans, Swedes, and Jews. Nearly three-quarters of the Russians are poor peasants living in the eastern frontier districts, the other

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[1] The famous Riga *Gewerbeverein* was spared, as being a purely cultural union.

[2] TABLE 5. *Population of Estonia According to Race.*

Race	*1922*		*1934*	
	Number	*Percentage of total*	*Number*	*Percentage of total*
Estonian . . .	970,707	87·68	997,923	88·2
German . . .	18,319	1·66	16,346	1·5
Russian . . .	91,109	8·23	92,656	8·5
Swedish . . .	7,850	0·71	7,641	0·7
Jewish . . .	4,566	0·41	4,434	0·4
Others . . .	14,506	1·31	7,190	0·7

quarter being composed chiefly of ex-officials of the Imperialist 563
Russian régime. In 1922 there were about 18,000 refugees, formerly 565
members of the White Russian army of General Yudenich. The 162
German minority, which is almost entirely Lutheran, consists mainly of merchants, artisans, industrialists, and expropriated Baltic Barons; most of them live in the towns, as does also the small middle-class group of Jews. The Swedes are concentrated on the coast and in certain islands, where they earn a livelihood as fishermen and peasants. A certain number of Letts inhabit the districts near the Latvian border, several of which were in dispute between the two countries in 1918.

Estonia has a well-earned reputation for the model treatment of 563
her national minorities. The Constitution of 1920 (Articles 12 and 191
20–3) guaranteed instruction in their mother tongue to racial minorities, and granted every Estonian citizen the right to declare to what nationality he belonged. Racial minorities had the right to establish autonomous institutions for the preservation and development of their national culture, so far as was compatible with the interests of the State. In districts where the majority of the population belonged to a racial minority the language used in the local administrative bodies might be the language of that minority, without prejudice to the right of Estonian nationals to use their own in dealing with such bodies. Article 23 provided that individual German, Russian, and Swedish nationals should have the right to address the Central Administration in their own languages, and foreshadowed the passing of special laws regulating the use of those languages in the courts. In view of this comprehensive charter of rights, Estonia considered superfluous the Declaration guaranteeing minority rights which was required of her by the League of Nations on her admission in 1921, and she only consented to make a general statement, similar to that of Latvia, on September 17, 1923.[1]

On February 4, 1925, a Law of Cultural Autonomy was adopted, 563
providing that any minority numbering not less than 3,000 persons should have the right to exercise national autonomy.[2] The administrative organs of cultural autonomy were to consist of the Cultural Council, with not less than twenty and not more than sixty

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[1] On two occasions German landowners in Estonia sent petitions to the League of Nations relating to agrarian reform, once in February 1921 (before the Declaration of 1923) and again in May 1926. In neither case did the petitions come before the Council.

[2] If such a minority expressed the wish to do so, a register was drawn up in which any citizen over 18 years of age might enter his name, the sole criterion of his nationality being his own declaration. If less than half of the adult citizens entered in the last census as members of the minority enrolled, no further steps were taken and no fresh application could be made for three years. Otherwise, the next step was to hold elections for a Cultural Council, the convocation of which required at least half the votes registered. Finally, the right to exercise cultural autonomy was granted if two-thirds of the Council expressed the wish for it.

563 members, a small executive committee, and local councils if desirable. The competence of the Council extended to all educational, cultural, and charitable institutions, and to the collection of special taxes from the members of the minority, subject to the approval of the Ministers of Finance and Education. In addition to the funds thus raised, the minority received a proportion of the funds set aside by the State and local governments for educational and other cultural purposes.[1]

Up till now the German and Jewish minorities have availed themselves of this law, which has operated very satisfactorily. The Russian minority did not at first consider it necessary to organise a Cultural Council, since, like the Swedes, they already had sufficient influence in the local administrations of the frontier districts, in which they were massed in great numbers; they are now, however, preparing to exercise the right of cultural autonomy. Under the liberal régime thus established there has been singularly little discontent among the national minorities, although under the dictatorship set up in 1934 it would appear to have increased to a certain extent. In the bi-cameral Assembly, which drafted the new Constitution in 1937, the Jewish, Russian, and German minorities had representatives in the Upper Chamber.

3. CHURCH AND STATE[2]

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162 *Estonia.* The majority of Estonians belong to the Lutheran Church, which has been firmly established ever since the period of Swedish rule (1521–1710); the Greek Orthodox religion introduced under the Russian régime gained relatively few adherents.

659 The Constitution of 1920, while guaranteeing freedom of religion, declared in Article 11 that there was no State religion, and made no

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[1] TABLE 6. *Minorities and Education in Estonia, 1929–30.**

Type of school	No. of schools	No. of pupils	Nationality (per 100 pupils)				Language of instruction (per 100 pupils)			
			Estonian	Russian	German	Others	Estonian	Russian	German	Others
Primary . . .	1,292	97,979	88·1	8·8	1·3	1·8	88·4	8·8	1·8	1
Secondary . .	83	15,063	85·7	4·4	7·3	2·6	84·5	5·3	9·2	1
Higher (university and higher technical school) . .	2	4,235	86·8	3·3	5·75	4·15	..	..	..	..

* Figures taken from *Estonie de 1920–1930* (Tallinn, 1931).

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[2] TABLE 7. *Religious Denominations in Estonia, Latvia, and Lithuania (in percentages of the total populations).*

Country	Date of census	Lutheran	Roman Catholic	Orthodox	Old Believers	Jews	Others
Estonia . .	1934	78·0	0·2	19·0	..	0·4	2·4
Latvia . .	1930	56·6	23·7	8·9	4·8	4·9	1·1
Lithuania .	1923	3·3	80·5	2·5	..	0·9	7·8

provision for compulsory religious instruction. In February 1923, 659 however, a Bill submitted to a referendum by the Christian-Democratic party (Lutheran), making religious instruction free and compulsory, was adopted by 330,000 votes to 130,000.[1] In 1926 a Law on the Religious Communities was passed, disestablishing and disendowing all religious bodies, while permitting them full autonomy and freedom to carry on their spiritual tasks. Under the dictatorship, however, a new law of 1934 imposed a certain degree of State control over the churches. Their statutes were subject to confirmation by the Government, and the decisions of the Church Councils could be vetoed by the Minister of the Interior, while the President of the State might require the appointment of other or additional candidates at the elections of the heads of the churches. All priests and [793] divines must be Estonian citizens, and services must be held in the language of the parishioners, except where ancient church languages were used. The churches were allowed their own courts, whose decisions might be provided with an executionary clause by the lay courts.

Latvia. Since the time of the Reformation, when the Baltic Barons 795 changed over from the Roman Catholic to the Lutheran faith, the 162 majority of the inhabitants have been Lutherans. The Province of Latgale, however, owing to its historic connexion with Poland, has remained Catholic to this day. During the period of Russian rule the Orthodox Church enjoyed a privileged position.

Complete religious liberty exists in Latvia to-day. The churches 659 are autonomous, but they receive small State subsidies, and clerical affairs are subject to the supervision of the Ministry of the Interior. In view of the large Catholic population in Latgale, the Government [648] signed a Concordat with the Vatican on May 30, 1922,[2] recognizing the Catholic Church as a corporate body, and establishing an Archbishopric at Riga, with the stipulation that the Archbishop must be a Latvian citizen and his appointment subject to the Government's consent.

Lithuania. Owing to its long historical connexion with Poland, 795 Lithuania has remained almost entirely Roman Catholic to this day. 659 In the Constitution of 1922 the State recognized the equal right of all religious organizations to administer their affairs, to publish their doctrines, and to acquire property. Religious education was to be [794] compulsory in schools other than those established for the children of undenominational parents, and was to be in accordance with the requirements of the religious organization to which the student belonged.

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[1] The result of the plebiscite was a defeat for the Government, which had previously rejected the Bill; in accordance with the Constitution, therefore, the State Assembly was dissolved, and new elections were held.

[2] A Supplementary Convention was signed during M. Munters' recent visit to Rome in January 1938.

000 requirements of the religious organization to which the student belonged.

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648 The clerical Christian-Democratic party in Lithuania, which was also a nationalist and agrarian group, has played a far more important part in political life than its Lutheran counterparts in Latvia and Estonia; indeed, it was the dominant partner in every Government during the parliamentary phase, except for the short-lived Populist-Socialist Cabinet of June–December 1926. In spite of this fact, relations with the Vatican were for a long time extremely acrimonious, largely as a result of the Concordat concluded in 1925 between Poland and the Vatican, whereby the latter recognized the Vilna district as a Polish diocese. Popular indignation at the failure of the Government to change this situation was exploited by the Opposition in the elections of 1926 to secure the defeat of the Christian-Democrats, who, however, supported the Voldemaras Government formed in the following December. A Concordat was eventually negotiated in September 1927, whereby the limits of the ecclesiastical province of
[793] Lithuania were to coincide with the existing frontiers; bishops were
[794] to be nominated by the Holy See, subject to the approval of the President of the Republic; although religious education was compulsory in all State schools, Catholic Churches might have their own schools, supported by the State.

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648 In the autumn of 1930 there was a recrudescence of hostility when the Government suppressed the Catholic Youth Organization, on the ground that the Church was encouraging political propaganda against the Government, and arrested a number of Christian-Democratic leaders. An exchange of Notes between the Vatican and the Government, followed by a visit of the Papal-Legate, Mgr. Bartolini, to Rome in January 1931, failed to lead to a reconciliation, and in June Mgr. Bartolini was virtually turned out of the country. Relations improved somewhat after the appointment of Mgr. Faidutti as Papal Chargé d'Affaires in August; but up till now no general measure of agreement has been reached, and the Government has succeeded in getting the upper hand in its struggle with the Christian-Democratic party, which was suppressed in 1935. The new Constitution adopted in February 1938, which provides for the introduction of civil marriage and deprives the Church of its autonomy, has aroused considerable opposition in clerical circles.

4. EDUCATION[1]

872 Under the Russian régime primary education in the Estonian and Latvian Provinces reached a fairly high level; in 1886, 98 per cent.

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[1] For statistics relating to the number and types of schools in the three countries, see footnotes on pp. 31, 34, and 38 above.

of the Estonian recruits to the Army were able to read and write. 872 A temporary setback followed the decree of 1887 forbidding the use of the Estonian language in schools, but conditions improved after the 1905 Revolution. After the establishment of their independence, both Estonia and Latvia introduced compulsory education, and in Latvia the school-leaving age is now 16 years. There is, therefore [212] practically no illiteracy—only 3·9 per cent. of the population of Estonia were registered as illiterate in the census of 1934, and the Russian minority accounted for the greater part of these—and the standard of instruction is said to compare favourably with that of other Western countries. There are flourishing universities at Tartu in Estonia, and in Riga.

Lithuania was, by contrast, far less advanced in educational development at the time when she achieved independence, the percentage of illiteracy being as high as 32·64 in 1923. Great progress has since been made, although compulsory elementary education was not in force in all provinces until 1931. The number of primary schools increased from 877 in 1919 to 2,557 in 1936, and a law of August 1936 raised the school-leaving age to 16 years. After the Polish occupation of Vilna a new university was founded at Kaunas.

IV. CONSTITUTIONAL AND POLITICAL PROBLEMS OF THE SUCCESSION STATES

1. INTRODUCTION

AT a first glance, the domestic histories of the three States since the 642 War seem to bear a striking resemblance. Each started with an ultra-democratic Constitution, and each has passed through a phase of dictatorship from which it is now, apparently, beginning to emerge. The factors contributing to these changes were not, however, by any means identical in each case, and the likeness between the three dictatorships was in some respects less real than apparent.

The early Constitutions of the new Republics, drafted after a careful study of those of France, Switzerland, and the United States, and above all of the Weimar Constitution of post-War Germany, owed their extreme democratic character partly to a natural reaction against the Tsarist régime, partly, too, to the political atmosphere prevailing in Europe after the victory of the Western democracies in the War. It was the prime concern of their authors to assert the sovereign power of the people, and to place such checks on the activities of those who governed them as to make either parliamentary or presidential 'absolutism' impossible.[1]

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[1] For a detailed comparative study, see A. Headlam-Morley, *The New Democratic Constitutions of Europe* (Oxford University Press, 1928); texts of the Constitutions are printed as Appendices to M. W. Graham, *op. cit.* 113

646 The Legislature[1] consisted in each case, largely for reasons of economy, of a single chamber, elected for a three-year term on a very wide franchise;[1] extraordinary sessions might be convened at the request of a specified proportion of its members, of the Government (in Estonia and Latvia), or of the President (in Latvia and Lithuania).

643 In Estonia the Head of the State was the Prime Minister of the day—here again, apparently, from motives of economy; thus every change of government involved a change of President. In Latvia and Lithuania the President was elected for a three-year term[2] by the Legislature, which could recall him by a two-thirds vote, and also institute criminal proceedings against him. In Lithuania he could dissolve the *Seimas*, but in that case his own continuance in office depended on re-election by the next *Seimas*; similarly, the Latvian President could submit a proposal for the dissolution of the *Saeima* to a referendum, but if it was rejected he must himself resign. In both countries the President had the right to initiate legislation, or to return laws adopted by the Legislature (with the exception, in Lithuania, of those declared urgent by a two-thirds majority) for reconsideration; this veto could be overridden, however, by an ordinary majority in Latvia, and by a majority of the total number of deputies in Lithuania.

645 The Cabinet was responsible individually and collectively to the Legislature, and dependent on its vote of confidence; but, while in Latvia and Lithuania the Prime Minister was appointed by the President (himself selecting the other Ministers), and in Lithuania could be dismissed by him, in Estonia (where there was no President) the *Riigikogu* was supposed to elect each Minister individually.[3] All acts of the President, who was not politically responsible, had to be countersigned by a Minister; in Latvia, the appointment of the Prime Minister and proposals to dissolve the *Saeima* were exceptions to this rule.

642 By these provisions it was hoped to establish an elaborate counterpoise between the Legislative and Executive functions. Equally complicated measures were taken to preserve the control of the electorate over both. Apart from the usual 'bill of rights', these consisted chiefly of the popular initiative and the referendum.

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[1] Citizens of both sexes who had reached the age of 20 in Estonia, and 21 in Latvia and Lithuania, were eligible to vote on a basis of direct, equal, universal, and secret suffrage, and of proportional representation. The number of deputies was fixed at 100 in the Estonian *Riigikogu* and the Latvian *Saeima*, and at 78 in the Lithuanian *Seimas*.

[2] The same person could not be elected for more than two consecutive terms.

[3] In practice, however, the function of President came to be exercised, during Cabinet crises, by the Speaker, who invited some one to form a government; after inter-party agreement, the new Prime Minister produced a list of Ministers which was accepted as a whole by the *Riigikogu*.

[1. in Constitutions after W.W.I--Analyst]

A specified number of citizens could propose a new law, or demand 642 the amendment or abrogation of an old one: in Lithuania, if such a proposal were rejected or amended by the *Seimas*, the matter ended there; but in Estonia and Latvia the issue was then referred to a plebiscite, while in Estonia a popular verdict contradicting that of the Legislature resulted in the automatic dissolution of the latter. Moreover, in Estonia and Latvia the promulgation of any law could, at the request of one-third of the Legislature, or in the case of Latvia on the President's own initiative, be postponed for two months, during which period a sufficient number of citizens might demand its submission to a referendum. Exemption from such submission was extended, however, in both countries to certain matters, such as the budget or other financial measures, foreign treaties, the declaration of war and peace, or of a state of emergency, &c., and in Latvia to any law which had been declared urgent by a two-thirds majority or passed a second time by a three-fourths majority of the *Saeima*. A referendum was automatically required in Estonia on all constitutional changes, but in Latvia only where the most fundamental clauses were in question. In Lithuania constitutional amendments could be proposed by the *Seimas* or the Executive, or by 50,000 citizens; but, unless a referendum was demanded by the President, or by a fraction of the electorate or of the *Seimas*, a three-fifths majority vote of the latter was sufficient for their adoption.

It would hardly be an exaggeration to say that democratic institutions, as operated during a period of parliamentary government lasting from 1922 to 1926 in Lithuania, and from 1920 to 1934 in Latvia and Estonia, never functioned properly, from the time of their inception until their abrogation. The political inexperience, the individualism, and in some cases even corruption, of the party politicians —particularly in Lithuania—made them unfitted for what is, after all, the most difficult of all forms of government. Moreover, the [645] system of proportional voting for party lists helped to encourage the growth of an absurdly large number of parties—in Latvia no fewer than twenty-eight were returned at the elections of 1925—whose members frequently represented individual interests rather than political principles, and had little contact with, and less responsibility to, the electorate. This in turn made for the weakness and instability of the Governments—between 1920 and 1934 there were eighteen Cabinets in Estonia and sixteen in Latvia; they tended, especially in Estonia, to become merely executive committees at the mercy of a heterogeneous and undisciplined Parliament. Every Cabinet had to be a coalition; if a broad one, it usually lacked constructive power; if a narrow one, it could not rely on a majority; and the negotiations

642 necessary for its formation led to the frequent prolongation of political crises by interminable party bargaining.

565 It is important to bear in mind that the vast majority of the 665 inhabitants of these countries are, and have always been, peasants. Under the Tsarist régime they were ardently nationalist, and, as long as the supremacy of the Baltic Barons endured, there was also a marked tendency to Socialism. After the establishment of independence, the agrarian reforms energetically prosecuted by all three States brought into existence a large new class of small peasant proprietors, and land-hunger, the chief incentive to revolution, was virtually abolished. The Agrarian parties grew steadily stronger at the expense of the Socialists and Centre groups,[1] while Communism —now that it was associated with Soviet Russia and all that Russian domination might involve—became practically extinct as a significant force.

Given, on the one hand, the state of parliamentary atrophy described above, with its probable accentuation of the economic and financial difficulties of the period, and, on the other hand, the increasing predominance of the Agrarian parties, influenced possibly by the success of the Pilsudski *coup* in May 1926 and the German National-Socialist victory in 1933, an outside observer might be tempted to describe what has happened in Estonia, Latvia, and Lithuania as a victory, in each case, of the peasant parties over
642 the Socialists, or of Fascism over parliamentary anarchy. Each of
186 the dictatorships, it is true, depends largely on the prestige of one
178 or two veteran statesmen, on the loyalty of the Army, and on the tacit acquiescence of the mass of the peasantry. It is also true, perhaps, that in each country an anti-foreign and anti-Semitic agrarian nationalism is becoming more and more pronounced, and, furthermore, that there is a common tendency on the part of the responsible leaders to favour the introduction of corporative institutions—although how far such an innovation would be likely to modify the existing concentration of powers it is as yet too soon to judge. But it would be misleading to stress the parallelism between the three States too much, or to conclude that the present authoritarian régimes employ the same methods and operate in the same interests in every case.

642 In Estonia, the Agrarian dictatorship of M. Paets was the last stage 578 of a race between the parliamentary groups and the extra-parliamentary and semi-Fascist organization, known as the 'Liberators'

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[1] In Lithuania the strength of the Socialists never exceeded 17 per cent. of the whole *Seimas*; but in the other two countries the Left groups, although they were at first numerically stronger than the Agrarian parties and had played a prominent part in framing the Constitutions, participated in a quite disproportionately small number of Governments, and diminished in strength fairly steadily in successive elections.

League', to impose on the country their rival brands of constitutional 642
reform; whereas in Latvia the protagonists were, on the one hand, 578
the Agrarian party—itself accused of Fascism—with proposals for reform, and, on the other, the Socialists with an anti-Fascist but otherwise unconstructive programme. Moreover, the dictatorship in Estonia has operated more mildly, and departed less radically from constitutional principles, than its counterpart in Latvia.

Lithuania, again, had problems peculiar to herself. Here a religious 642
issue cut across the straight fight between Nationalist-Agrarian and 578
Socialist. Lithuanian nationalism demanded the restoration of 186
Vilna; but the Vatican had recognized that province as a Polish diocese. The Christian-Democrats, who were as much a clerical as an agrarian or nationalist party, were therefore divided between two loyalties. The *coup d'état* of 1926 was executed by a group of officers in favour of the Nationalist party—a small Conservative group of landowners and industrialists—at a time when the Populists and Socialists were in office; the Christian-Democrats at first supported the Voldemaras dictatorship, owing largely to prolonged ill-feeling between the Nationalist Government and the Vatican, but they ended by going into permanent opposition, and under the Tubelis Administration were suppressed altogether. More recently the Memel dispute gave rise to some discontent, this time among the peasants, among whom there was a feeling that their interest in good trade relations with Germany was being sacrificed to a policy of extreme nationalism. None the less, the dictatorship has continued for nearly eleven years, and is only now beginning to show signs of modification; presumably, the pressing need for national unity, imposed first by the Vilna dispute and later by the Memel controversy, must be counted as the primary cause of the prolonged supremacy of a régime which appears to rest not so much—as in Estonia and Latvia—on its power to satisfy the needs of an important agricultural class, as on the support of the Army, the ability of a small group of intellectuals, and the immense personal prestige of President Smetona.

2. ESTONIA

Political Parties. The table of election results below[1] shows a 665
striking shift of numerical strength from the Left and Centre parties [565]
to the Right, which consisted of the Agrarian party, or Peasants' Union, reinforced after 1923 by the New Farmers or 'Settlers'. These were the representatives of the new class of peasant proprietors created by the agrarian reforms, and became, in 1932, the left wing of a United Agrarian party.

The Agrarian party consisted chiefly of farmers who had owned

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[1] See Table 8 at foot of next page.

665 land before the agrarian reforms; its programme included the defence of private property and enterprise, the creation of small properties from State reserves to satisfy the needs of the landless classes, and the subsidization and protection of agriculture by the State. Its leaders included M. Konstantin Paets, now President of the State and Dictator, Generals Laidoner and Soots, and MM. Teemant and Eenpalu (formerly Einbund). The Agrarians took part in all but three of the twenty coalition Governments between 1919 and 1934,[1] while the New Farmers, after their first appearance in 1926 in M. Teemant's Government, were only once excluded from office.

The two major groups of the Centre were the Labour and Populist parties. The Labour party was formed as the result of an amalgamation of two moderately radical parties which had appeared in the National Council of 1918,—the Radical Socialists led by MM. Wilms and Strandman, and the Social Travaillists led by MM. Piip and 000 Seljamaa. It represented the liberal but non-socialist intelligentsia

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[645] [1] M. Paets was five times President of the Council (in 1921, 1923, 1931, 1932, and 1933); M. Teemant four times (1925, 1926, 1927, and 1932), and M. Eenpalu once (1932).

Table 8. *Estonian Election Results, 1919–34.*

Parties	*First Constituent Assembly 1919–20*	*State Assemblies*				
		1920–3	*1923–6*	*1926–9*	*1929–32*	*1933–4*
Right:						
Agrarian	8	21	23	23	24	United Agrarian Party 42
Settlers (New Farmers)	..	..	4	14	14	
Centre:						
House owners	..	1	2	2	3	National Middle Party 23
Christian-Democrats	4	7	8	5	4	
Populists (Estonian Nationalists)	25	10	8	8	9	
Labour	30	22	12	13	10	
National Liberals	..	..	4	..	..	..
Ex-service men	..	..	1	..	..	..
Small landholders	..	..	1	..	..	..
Minorities:						
Russian	1	1	4	3	2	5
German	3	4	3	2	2	3
Swedish	1	..	..	..	1	
Left:						
Socialists (Social-Democrats)	41	18	15	24	25	22
Independent Socialists (Socialist Revolutionaries)	7	11	5	..	..	..
Communists	..	5	10	..	..	..
Workers	..	..	..	6	6	5

Estonia

It[1] represented the liberal but non-socialist intelligentsia 665 [525]

and working classes, the artisans and commercial and government employees, and stood for a radical programme of social and agrarian reform. Its most valuable function was to hold the balance between the Agrarians and Social-Democrats, and during the whole course of the constitutional period it was only excluded from the Government on four occasions.[1] The **Populist party**, earlier known as the National Democratic Party, stood rather more to the Right, representing the bourgeois intellectuals and professional and business interests, and had its origin in the nationalist cultural movement under the Tsarist régime, and later, in the fusion of the Estonian Democrats and Radical Democrats in the National Council of 1918. It was represented in all but three Governments.[2]

The **Christian-Democrats**, or Christian-Nationalists, formed a smaller group whose chief concern was the defence of religious (Lutheran) and clerical interests. In social matters they followed the Right group at first, but gradually inclined towards the Centre. They participated in the majority of Cabinets after 1921, and their leader, Dr. Akel, was President of the Council in 1924, and Foreign Minister for a time under the dictatorship. Largely on account of the system of proportional representation, the Centre groups went through a phase of disintegration, especially between 1923 and 1926; the elections of 1932, however, saw a rally towards concentration, with the amalgamation of the Populists, the Labour party, Christian-Democrats, and House Owners into a single National Middle Party.

The only important group on the Left was the **Social-Democratic party**, led by MM. Rei and Martna, which was affiliated with the Second International, represented the interests of the working classes and trade unions, and stood for a moderate programme of State socialization of industry. In spite of their parliamentary strength, the Social-Democrats only took part in six Governments between 1919 and 1934,[3] and the only occasion on which a Socialist held the office of President of the Council was in 1928, when M. Rei formed a coalition of Socialists, Christian-Democrats, New Farmers, and the Labour party.

The most radical group in the Constituent Assembly had been that of the seven Socialist Revolutionaries, which, by the first *Riigikogu*, had split up into the **Independent Socialist party** and the **Communists** proper. In the 1926 elections no Independent Socialists were returned, but their more radical members, who had broken away

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[1] M. Strandman was twice President of the Council (in 1919 and 1929); M. Piip once (in 1920), and M. Kukk (1922). 643

[2] M. Tõnisson was three times President of the Council (in 1919, 1927, and 1933), and M. Jaakson once (1924).

[3] i.e. twice in 1919, and in 1924, 1928, 1931, and 1932.

1 [The Labour Party in Estonia--Analyst]

1: Anonymous U-4 (no date) 1938 RB1 Baltic States RB1
Estonia

665 [196] and formed the Workers' Party, or 'Kaaver-Socialist' group, secured six seats. In 1930 this group was dissolved and its seats distributed among the other parties, while the Communist party had already been declared illegal after a *putsch* engineered from Moscow in December 1924. The solidarity of the nation against Communism was illustrated by the energetic suppression of this *putsch* by General Laidoner, and the formation of a grand coalition of all the major parties, including the Social-Democrats, under Dr. Jaakson. Martial law, which had been proclaimed throughout the country, was thereafter retained permanently in certain frontier zones and on all railways; and, although during the following years plots were from time to time discovered, Communism never again got out of hand to the extent of being a national danger.

642 *Constitutional Reform.* As early as 1924 the question of constitutional revision was raised by Dr. Jaakson in his Ministerial Declaration immediately after the Communist *putsch*, when he suggested the desirability of separating the functions of the President of the State from those of the Prime Minister. Bills to that effect were unsuccessfully introduced in the Assembly by the parties of the Right in February 1925 and July 1926, while the Labour party tabled a [666] separate Bill in 1926 for halving the number of deputies in the Assembly; in the same year the Assembly actually adopted a modification of the electoral law, requiring a deposit from every candidate and a minimum of two successful candidates for representation of any group in the Assembly.

668 642 The year 1930 saw the genesis of a speedily repressed peasant 'Lapuan' movement in South Estonia, somewhat on the lines of its Finnish prototype, but without the latter's anti-Communist character. This organization expressed its dissatisfaction with parliamentary 'absolutism', talked of a march on Tallinn, and proposed to petition for the reduction of the number of deputies and the diminution of their salaries. A far more important movement was set on foot in March 1931 by the Ex-service Men's Federation, which passed a resolution demanding the institution of a President of the State with extensive powers, an electoral system which allowed for votes for individuals instead of for lists, and the reduction of the number of deputies, with the threat that, if the Government did not accede to these requests within three months, the Federation would proceed to a popular referendum.

578 642 There now began a three-cornered struggle between the Agrarian and Centre parliamentary groups, which favoured moderate reform; the Ex-servicemen—henceforth known as the 'Liberators'—who demanded far wider powers for the President of State than the former were willing to concede; and the Social-Democrats, who were opposed

to the institution of the office of President in principle. In August 578
1932 a Bill creating the office of President and reducing the number 642
of deputies to eighty, which had been adopted by the *Riigikogu* in March, was rejected in a referendum by 330,236 to 315,900 votes. A second and somewhat similar Bill, passed by the *Riigikogu* in February 1933, suffered an overwhelming defeat in a referendum held in the following June, about 67 per cent. of the votes cast being against it—the defeat of both projects being due as much to the opposition of the Socialists as to that of the Liberators.

The Government were therefore obliged to allow the Liberators to put their own proposals to the public vote; but, in the meantime, they extended the emergency law (a mild form of which had applied to certain districts ever since 1924) over the whole country, suppressed all extremist organizations of both the Right and the Left Wings, including the Liberators' League—which by now had cast its nets wide and was believed to have connexions with the Nazi party in Germany, and even augmented the quorum necessary for the acceptance of the Bill. In spite of these precautions the Liberators' project was approved, in the referendum held on October 14–16, 1933, by 416,000 votes to 157,000. Thereupon M. Tõnisson's Government resigned, and M. Paets formed a non-party Cabinet.

The Dictatorship. What was virtually a new Constitution thus 643
came into force on January 24, 1934. To the new office of President of the State, for which elections were to be held every five years by direct and universal suffrage, were attached extremely wide powers, including the conduct of home and foreign policy, the appointment and dismissal of officials, and the initiation of legislation. The President was to appoint the Cabinet, and could dismiss it; he could adjourn the *Riigikogu*, which was now reduced to fifty members—or could dissolve it and hold new elections; he had the right of absolute or suspensive veto on all legislation, and in case of necessity could declare a state of emergency, and promulgate draft laws as decrees.

Pending the presidential elections, which were fixed for April, 642
M. Paets assumed the provisional presidency. The campaign for the 661
nomination of candidates was in full swing, and the chances of the Liberators' candidate, General Larka, appeared very favourable,[1] when, suddenly, on March 12, M. Paets proclaimed a state of emergency on the ground that the Liberators were planning a Nazi *putsch*. Martial law was declared for six months, and General Laidoner was appointed Commander-in-Chief. All party activities were forbidden, the Liberators' organizations were dissolved, and some 500 of their

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[1] In January the Liberators had gained an overwhelming victory in the municipal elections; the results of these were annulled, however, after the *coup* of 1934.

642 leaders (not including General Larka) were arrested.[1] The presidential
661 and parliamentary elections were postponed until the end of the state of
emergency, which was itself prolonged in September for another year.

642 Some attempt to adhere to constitutional procedure was made,
however, in October 1934, when an extraordinary session of the
Riigikogu was summoned; but, in view of the recalcitrant attitude
of the majority of the representatives, it was immediately prorogued,
and in January 1935 President Paets announced the Government's
[478] intention of replacing the new Constitution by a system of corporative
representation. A beginning was made in the following March
with the creation of an Economic Council, ten of whose members
were to be appointed by the President, while the remaining fifteen
[665] would be elected by the Chambers of Commerce. At the same time
the single-party system was introduced, with the foundation of a
Patriotic party under the direction of the Chief of Propaganda.
646 Finally, on January 8, 1936, a Bill empowering the Government to
summon a Constituent Assembly was submitted to a referendum and
approved by 474,218 votes to 148,824. This Bill provided that the
Assembly, which was to adhere to republican and democratic
principles, should consist of two Chambers: the first composed of
eighty members elected by direct, universal, equal, and secret
suffrage on the principle of personal election; the second of forty
members, ten of whom would be appointed by the President and the
remainder by the various public bodies.[2]

While the results of the elections to this Assembly, which were held in December 1936, have not been published, it is understood that little more than half the electorate voted, and that in fifty of the eighty constituencies only one candidate was presented for election, while, although some Opposition leaders were returned in the remaining thirty, even here the majority of seats fell to Government nominees. Moreover, the restrictive precautions taken during the electoral campaign were such as to evoke a manifesto in the Finnish press by four former party leaders, MM. Tõnisson, Piip, Kukk, and Teemant.

642 The National Assembly met on February 18, 1937, and was dissolved on August 17, after adopting the final draft of the constitutional law presented for their consideration by the Government. Its main provisions are as follows:

642 The President is elected for six years, by direct, universal, and
646 secret suffrage; the National Assembly consists of a Chamber of

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[1] An attempted *coup* planned by the Liberators in December 1935 was forestalled by the arrest of General Larka and other leaders, and was punished by the infliction of severe sentences on some 148 prisoners, in May 1936. About half of the latter, including General Larka, have since been amnestied.

[2] e.g. by the Courts of Justice, local government bodies, corporations, churches, cultural boards of minorities, the Civil Guard, &c.

Deputies and a National Council, the first being composed of 48 642
members elected by secret and universal suffrage on the basis of [646]
majority voting, and the second of 40 members—10 of whom are nominees of the President, and the remaining 30 representatives of the corporations, municipalities, and public institutions; the age qualification of voters is 22 years, of deputies 25 years, and of members of the National Council 40 years. The right to initiate legislation belongs to the Government with the President's cognizance, or to one-fifth of the Chamber of Deputies; measures relating to national defence, however, can only be proposed by the Government, while their consent is necessary for the introduction of fiscal measures by the Chamber of Deputies. Legislation rejected by the National Council requires for its option a three-fifths majority vote
of the total number of deputies in the first Chamber. The President [643]
has the right of dissolution and suspensive veto, and the power to govern by decree between parliamentary sessions; he appoints and dismisses the Government, and, in the event of a vote of no confidence by the Chamber of Deputies, he may either dismiss the Government or order new elections; his acts must be countersigned by the Prime Minister and the competent Minister, and he may be impeached before the State Court; with the consent of the Chamber of Deputies he can submit any measure to a national referendum. Constitutional amendments may be proposed either by the President or by a majority of either of the two Chambers, and, in the event of the National Assembly's rejection of such a proposal made by the President, the latter may submit it to a referendum. Provision is made for legislation setting up autonomous professional corporations; freedom of conscience and religion are guaranteed, and there is no State Church; national minorities are permitted to establish autonomous institutions for cultural purposes and social assistance; instruction in their schools is to be conducted in their own language and in that of the State.
The Constitution came into force on January 1, 1938, and elections [645]
to the new Chamber of Deputies took place on February 24–5, when the Patriotic Front gained fifty-five out of the eighty seats. No other parties were permitted, but several of the former party leaders, including MM. Piip and Tõnisson, were returned. On April 24, 1938, M. Paets, by 219 votes to 19, was elected the first State President under the new Constitution.

3. LATVIA

Political Parties. Five main groups are shown in the table below:[1] 665
the Agrarians; the Right, Centre, and National Minority groups, one

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[1] See Table 9 on next page.

1: Anonymous U-4 (no date) 1938 RB1 Baltic States RB1
Latvia

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TABLE 9. *Latvian Election Results, 1922–34*

Parties	*1st Saeima 1922–5*	*2nd Saeima 1925–8*	*3rd Saeima 1928–31*	*4th Saeima 1931–4*
Left:				
Social-Democrats	30	31	25	20
Latgalian Social-Democrats	..	1	1	..
Socialist Jewish 'Bund'	1	1	1	..
Independent Social-Democrats	..	..	1	1
Right Social-Democrats	7	4	2	..
Peasant and Labour Group	..	..	6	7
	— 38	— 37	— 36	— 28
Centre:				
Democratic Centre	6	3	3	6
Labour Union	..	..	1	1
Progressive Union	..	..	..	3
Economic Union	..	..	1	1
Radical Democrats	..	1	..	..
Non-Party Latgalians	..	1	..	..
Young Farmers	3	3	..	..
Christian Labour	..	..	1	..
Latgalian Progressives	4	2	3	2
	— 13	— 10	— 9	— 13
Agrarian Group:				
Peasant Union	16	16	16	14
New Farmers and Smallholders	..	3	4	9
Latgalian Christian Farmers	3	5	6	8
Latgalian Progressive Farmers	4	2	3	3
Devastated Areas	1	1	..	..
Latgalian Independent Farmers	..	1	..	..
Semgalian Christian Farmers	1	..	..	..
	— 25	— 28	— 29	— 34
Right:				
Christian Union	..	..	..	6
National Union	4	3	2	..
Christian Nationalists	4	2	4	..
Party for Peace and Order	..	1	1	1
Latgalian Union	1	2	1	..
National Farmers	..	1	..	..
New Peasants' Union	..	..	..	1
	— 9	— 9	— 8	— 8
Minorities:				
Russians:				
Old Believers	1	2	2	2
Orthodox Workers	..	2	2	2
Officials in Latvian Municipalities	1	1	2	1
Peasant Union	..	..	..	1
National Democrats	1	..	..	..
Germans	6	5	6	6
Jews:				
Agudas Israel	2	2	1	2
Misrachi	2	1	2	1
Ceire Zion	1	1	1	..
Poles	1	2	2	2
	— 15	— 16	— 18	— 17
Total	100	100	100	100

or more of which were always to be found supporting the Agrarian 665 Coalition Governments; and the Left Wing. The phenomenal number of parties in Latvia is accounted for in part by the fact that the Province of Latgale was equipped with a complete set of parties of its own, partly, too, by subdivision among the minority groups.

Here, even more than in Estonia, political life was dominated by the Agrarian parties, the most important of which were: the **Peasant Union**, which was founded in 1917, in nationalist and democratic opposition to the German-Balt landowners, and which represented the same class of well-to-do farmers, and stood for the same programme of land reform and agricultural protection, as did the Estonian Agrarian party; the **New Farmers**, led by M. Blodnieks, representing the new peasant-proprietor class; and the **Latgalian Christian Farmers**, led by Bishop Rancans and M. Kublinskis. The economic and political tenets of the three groups were practically identical; in foreign policy, however, the Peasant Union favoured, and the Latgalian Farmers opposed, closer relations with Poland, while in religious questions the Peasant Union was predominantly Lutheran, and the Latgalian Farmers purely Roman Catholic.

Although the combined parliamentary strength of the Agrarian 665 *bloc* was, until 1931, considerably inferior to that of the Left, its 643 actual preponderance is demonstrated by the fact that out of the eighteen Prime Ministers who held office between 1918 and 1934, thirteen were members of the Peasant Union, and one of the New Farmers' Party; while there were but two Governments—those of M. Zamuelis in 1924 and M. Skujenieks in 1926–8—in which no Agrarian party participated. Moreover, the Peasant Union has provided the majority of Latvia's prominent leaders: men like M. Ulmanis—eight times Prime Minister, and present Dictator and President of the State; M. Čakste, President of the State from 1922 until his death in 1927; M. Kviesis, President from 1930 to 1936; MM. Meierovics, Pauluks, Celmins, and Alberings, all former Prime Ministers; M. Klive and General Balodis.

Of the Centre groups, the most important was the **Democratic** 665 **Centre party**, representing the professional and middle classes, led by M. Zemgals (President of the State from 1927 to 1930) and by MM. Zamuelis and Juraševskis (Prime Ministers in 1924 and 1928 respectively). In 1929 the Centre was reinforced by M. Skujenieks' Right Social-Democratic party, which moved over from the Left and took the name of the **Progressive Union**. M. Skujenieks had already held the office of Prime Minister from December 1926 to January 1928, and from May 1931 to February 1933 he headed a bourgeois-nationalist coalition notable for its attempts to curtail the rights of the national minorities. On the Right, the **Christian-**

665 Nationalists deserve special mention, as representing the interests of the Lutheran Church.

On the left, the Social-Democratic party, which had its origin in an amalgamation of various nationalist organizations in 1904, and which before the War had been an autonomous section of the Russian Social-Democratic movement, represented the working classes and trade unions, and was affiliated to the Second International. In economic affairs it opposed the Agrarians' protectionist policy and the compensation of expropriated landlords, and in foreign policy inclined towards closer relations with the U.S.S.R., while opposing any *rapprochement* with Poland or Germany; it was also antagonistic towards the national minorities and particularly to the Germans. In the Constituent Assembly the Left had formed a single group with fifty-seven seats, but with the elections to the first *Saeima* a process of splitting into small groups began.[1] The Social-Democrats took part in only three Governments: from the first, M. Pauluks' Agrarian-Left-Centre Cabinet of 1923, they were obliged to withdraw owing to a clash between Fascist and Socialist organizations which led to street fighting; the second, M. Zamuelis' Left-Centre Coalition of January-December 1924, resigned as an indirect result of the Communist *putsch* in Estonia; while the third, M. Skujenieks' Coalition of Left and Centre parties, resigned a year later, owing to the unpopularity of the Latvian-Soviet Trade Agreement. Throughout 1929 and 1930 they were in violent opposition to the second Celmins Government, particularly in the matter of the treatment of the German minority,[2] and they declined to co-operate in M. Skujenieks' second Cabinet of May 1931–March 1933. The Socialist leaders included Fr. Vesmanis and Dr. Kalnins (Speakers of the *Saeima* in 1922–5 and 1925–8), and MM. Bastjanis, Cielens, and Celms.

No legal Communist party existed, and an extreme radical group which appeared in the third *Saeima* was dissolved by the Supreme Court in the autumn of 1933, and its seven deputies were arrested on a charge of treason.

668 *The Dictatorship.* Signs of Fascism appeared quite early in Latvia; in 1927, when a nationalist club known as the Latvian Fascists was suspected of preparing an anti-Communist *putsch*, the Government of the day, M. Skujenieks' Left-Centre coalition, authorized the organization of the Social-Democratic 'Workers' Sports League' as an auxiliary corps, and assisted it in the purchase of arms; later in the year a group of officers made an unsuccessful attempt to organize a military *putsch* as a protest against the Latvian-Soviet Trade Agreement. 665 In 1932 a National-Socialist party was formed, apparently unconnected with the German Nazi party, but anti-semitic in

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[1] See table of election results, p. 52.

[2] See pp. 34-5.

tendency, and sympathetically regarded by the German minority. 665 There was also an extreme nationalist and Fascist organization known as the **Pehr Konkrusts Society**, while the **Aizsargi**, the para-military organization of the Peasant Union, was also becoming increasingly Fascist in tendency.

In 1933 began a struggle between the Socialists on the one hand, 578 and M. Blodnieks' Agrarian-Right-Centre coalition on the other, 665 which ended in the *coup* of May 1934. In August 1933 an extraordinary session of the *Saeima*, summoned on the Socialist party's initiative, rejected a Socialist Bill for the dissolution of all Fascist organizations, the dismissal of Fascist officials, and the expulsion of German Nazis from the country.[1] On the other hand, the *Saeima* also rejected a proposal to send to committee a Bill tabled by the Peasant Union in October, which would have enlarged considerably the powers of the President of the State. On March 2, 1934, the Blodnieks Government fell as a result of a disagreement between the Peasant Union and the New Farmers over financial policy, and M. Ulmanis, the leader of the Peasant Union, formed a coalition of his own party, the bourgeois parties of the Right and Centre, and most of the minority groups.

Shortly after the *Saeima* had voted for the dismissal of all Nazi 661 or Fascist officials employed by the Administration or by local 578 government bodies, M. Ulmanis proclaimed a state of emergency on May 15, and ordered the dissolution of the *Saeima*, the cessation of all party activities, and the imposition of martial law for six months.[2] A strict censorship of the press was established and troops were stationed in various parts of Riga. A Government manifesto gave as justification for these measures the fear lest the internal tension due to the interminable party conflicts, and the failure of the Peasant Union's proposal for constitutional reform, should lead to a state of civil war. A new Government, alleged to be non-party and to consist of experts, was formed on May 17, with M. Ulmanis as Prime Minister and Foreign Minister,[3] and General Balodis as Minister for War. All municipal councils were suspended, and new mayors appointed.

The chief victims of the *coup* were the Socialists, a number of who 661 leaders were arrested on charges of possessing illicit arms,[4] although i

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[1] In the autumn, however, the Government did forbid the wearing of uniforms b political organizations, and dissolved all athletic associations within these organizations, including the 'Workers' Sporting Club'.

[2] It was later prolonged indefinitely.

[3] In July 1936 M. Munters was appointed Foreign Minister.

[4] In the court martial held on these men in November Dr. Kalnins (formerly Speaker of the *Saeima*) was acquitted, but his son, Brumo, the leader of the 'Workers' Sports League', was sentenced to three years' imprisonment. A further trial of Socialists was held in April 1936 on charges of organizing an illegal revolutionary movement called the Socialist Labour and Peasant Party.

661 June certain leaders of the extreme Fascist organizations, including the Pehr Konkrusts Society, were also arrested, while in October a number of Lettish Germans and a few German nationals belonging to the Baltic Brotherhood—a society working for the absorption of the Baltic States by Germany—were sentenced to short terms of imprisonment.

642 The Government had announced in 1934 that it would draft constitutional reforms, curtailing the power of the *Saeima* and increasing those of the President, who, by an Army Law of January 1, 1935, was appointed the supreme chief of all the armed forces. On March 19, 1936, a law was issued providing that on the expiry of President Kviesis's second term of office on April 11, M. Ulmanis [475] should become acting President until the completion of the constitutional reform. Meanwhile, preparations were in train for an entirely new constitution on corporative lines; in January 1936 a law was promulgated creating a national economic council, consisting of representatives of the Chambers of Commerce, Industry, Agriculture, Labour, and Artisans, to deal in an advisory capacity with questions submitted to it by the Government. The Council did not meet, however, until January 1938; nor was martial law allowed to lapse until the following February, when it was replaced by a new 'Law for the Defence of the State', giving extraordinary powers to the Minister of the Interior with regard to the press, the liberty of the subject, and the rights of association and assembly.

4. LITHUANIA

665 *Political Parties*. From November 1918 to June 1926, political life in Lithuania was dominated by the nationalist and clerical **Christian-Democratic Party**,[1] which was founded in 1890, and which,

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[1] TABLE 10. *Lithuanian Election Results, 1920–36.*

Parties	*Constituent Assembly 1920–2*	*1st Seimas 1922–3*	*2nd Seimas 1923–6*	*3rd Seimas 1926–7*	*4th Seimas 1936*
Christian-Democrats	59	15	14	14	..
Peasant Union		12	14	11	..
Federation of Labour		11	12	5	..
Populists	29	19	16	22	..
Social-Democrats	14	11	9	15	..
Communists	..	5	..	..	..
Farmers' Party	..	..	..	2	..
Nationalists	..	..	..	3	46
Minorities:					
Jews	6	3	6	3	..
Poles	3	2	11	4	..
Russians	..	..	1	..	..
Germans	1	..	2	6	3
Total	112	78	85	85	49

while it consisted mainly of peasants, included voters of all classes, 665 as well as a great number of Roman Catholic clergy. Although anti-Communist in social policy, it was moderately democratic, and supported the agrarian reforms—while defending private property and the compensation of expropriated landlords—and the workers' right to organize and to strike. In foreign policy it was extremely anti-Polish; apart from its nationalist aims, its chief concern was the protection of religious interests. Its leaders included M. Bistras, Dr. Karvelis, and Father Krupavičius. Closely allied with the Christian-Democrats, and acting with them until 1926 as a single parliamentary *bloc*, were the **Peasant Union**, led by MM. Stulginskis, Mikšys, and Petrulis, and the **Federation of Labour** (founded in 1919), both of which were originally off-shoots designed to draw into the Christian-Democratic party the representatives of all classes of voters. The **Federation of Labour**, which counted among its leaders Drs. Ambrozaitis and Milčius, and MM. Radzevičius and Kasakaitis, was composed of non-Socialist workers and a number of small land-owners and new settlers.

The six Cabinets formed between the promulgation of the Constitu- 642 tion in 1922 and the elections of May 1926 were composed, without 665 exception, of members of these three parties; and during this period the veteran leader of the Peasant Union, M. Stulginskis, held the office of President of the State. In March 1923 M. Galvanauskas (non-party), who had been Prime Minister since 1922, resigned, feeling that a realignment of forces had taken place now that the Constitution and the agrarian reform had ceased to be the main issue, and the *Seimas* was prematurely dissolved by the President; but the second *Seimas* differed very little in composition from its predecessor. M. Stulginskis was re-elected President, and M. Galvanauskas's fourth Ministry was followed by those of MM. Tumėnas (Christian-Democrat), Petrulis (Christian-Democrat), and Bistras (Peasant Union). In May 1926 the natural term of the second *Seimas* expired, and in the subsequent elections the Christian-Democrats suffered a severe defeat, due partly to their inability to prevent the Vatican from concluding a Concordat with Poland, whereby Vilna was recognized as a Polish diocese, partly to the corrupt practices of the party itself, which had filled public offices wherever possible with its own nominees, and partly to the prevailing economic depression.

A coalition of **Populists** and **Social-Democrats** under the 665 Populist leader, M. Sleževičius, now took office, and Dr. Grinius, also a Populist, was elected President. The **Populist**, or **People's Socialist party**, the largest single group in the *Seimas*, which had started life in 1902 as the Lithuanian Democratic party, drew its membership from much the same classes as did the Christian-

665 Democrats, and shared their nationalist and social policies, while being absolutely opposed to their views of the part that religious interests should play in politics. The **Social-Democrats,** led by M. Kairys and Professor Čepinskis, were also a nationalist group of pre-War origin, affiliated with the Second International, and with a constitutional programme which included the nationalization of banking and industry.[1]

642 665 Within six months, however, this Cabinet of the Left-Centre was brought to an untimely end; although relatively successful in foreign policy—a Treaty of Neutrality and Non-aggression was concluded with the U.S.S.R. on September 27, 1926—the Government roused opposition at home by the concessions which it was obliged to make to the national minority groups as a *quid pro quo* for their parliamentary support, by giving way to the Social-Democrats' demands that the public services should be purged of Christian-Democratic officials, and above all by its policy of allowing considerable latitude to Communist activity and propaganda. Moreover, the economic depression had not been alleviated, while the hopes of improved trade relations with Russia as a result of the new treaty had been disappointed. Finally, the Government's decision to cut down the army establishment, in compliance with the demands of a section of its supporters, seems to have alienated the officers' clubs.

The Voldemaras Dictatorship, 1926–9. The *coup d'état* executed on the night of December 16, 1926, by a number of officers including General Ladyga and Colonels Skorupskis, Plekavičius, and Grigaliunas, brought into power the Nationalist party, a small group of conservative landowners and industrialists led by MM. Smetona and Voldemaras, which had not appeared as a parliamentary group until the elections to the third *Seimas* in May 1926, when it returned only [661] three members. The Sleževičius Cabinet was now arrested and forced to resign; martial law was declared on the pretext of an imminent Communist *putsch*, and various public buildings were occupied by troops; and President Grinius was compelled to invite M. Voldemaras to form a new government, a task which the latter, with the support of a number of Christian-Democrats, accomplished in a single day. A Rump Parliament, consisting of only forty members of the Right, approved the resignation of President Grinius and of its Speaker, M. Staugaitis (Populist), and on December 19 elected M. Smetona as President and passed a vote of confidence in the new Government.

M. Voldemaras proceeded to draft constitutional amendments, which it was his original intention to submit to a popular referendum;

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[1] The Communist party was illegal, and appeared in the first *Seimas* only, disguised as the 'Workers' Group'.

but the opposition from every quarter was so strong that he never 642 actually did so. The remnant of the *Seimas* was dissolved on April 12, 665 1927, after a vote of no-confidence; but the Christian-Democrats insisted that any scheme for constitutional revision must be preceded by new elections to the *Seimas*, while the other parties threatened to boycott the scheme altogether. In May the Christian-Democratic members of the Cabinet resigned, and in June the whole party went into opposition. In the autumn, numbers of Social-Democratic [661] and Populist leaders were thrown into prison, and many more fled to Vilna, where they organized an emigré Opposition movement; martial law and the press censorship were tightened up; and an unsuccessful attempt by a group of army officers, in November, to force M. Voldemaras to compromise with the Opposition only resulted in the dismissal of the Commander-in-Chief. Early in 1928 several more Christian-Democrats were imprisoned, and in May the last of the non-nationalist Government parties, the Labour Federation, withdrew its support.

Finally, on May 15, 1928, the new Constitution was promulgated 642 without the Opposition's consent. It provided that the President, who would be elected for a seven-year term by a college of representatives of the whole nation, should have the power to dissolve the *Seimas* and issue decrees when it was not in session; that laws should be drafted by a State Council, and that a three-fifths vote should be required for a vote of no-confidence in the Cabinet;[1] it was to come into force immediately, but was to be ratified within the next ten years. Its publication made singularly little difference to the situation, however, as the Nationalists continued to govern without summoning the *Seimas* for the next eight years.[2]

By April 1929, when the Social-Democratic party was suppressed 661 by decree, the prisons were full of the leaders of all parties, while M. Voldemaras was organizing nationalist societies (such as the 'Iron Wolf' and the 'Sharpshooters') into a kind of Fascist Militia, in the hope of undermining the influence of the officers' clubs which had brought him to power. Finally, soon after an abortive attempt to assassinate him in May, he quarrelled with President Smetona and the rest of his colleagues, who attacked his policy in general, and in particular the violently anti-Polish attitude which he had adopted in the Vilna dispute at the League Council. In view of the waning

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[1] Other reforms included the reduction of the number of deputies, the raising of the age qualification for the franchise to twenty-four years, and the extension of the *Seimas*'s term to five years; it was also proposed to amend the Electoral Law so as to allow majority voting for individual candidates.

[2] In September 1928, during one of M. Voldemaras's absences in Geneva, the President ventured to promulgate a law setting up the Council of State prescribed by the Constitution, but it seems to have faded into the background when the Prime Minister returned.

661 support of the Army and of the President, he was obliged to resign his post on September 19, and, although he subsequently made several attempts to seize the reins again,[1] he never succeeded in doing so.

642 *The Tubelis Administration, 1929–1938.* President Smetona now invited his brother-in-law, M. Tubelis, to form a Cabinet which, with certain alterations, has remained in office to this day; M. Zaunius became Foreign Minister, while M. Rusteika retained the post of Minister of the Interior which he had held under M. Voldemaras. For a time the prospects of a return to normal political life seemed brighter. Political prisoners were released and dismissed officials reinstated; party leaders who had gone into voluntary rustication returned to the capital; in December 1929 even the ban on the Social-Democratic party was raised, although the press censorship was
[666] strictly maintained. The first provincial and municipal elections since the *coup* were held in June 1931,[2] and on December 11 an electoral college, chosen by district assemblies of the new local government bodies, met to re-elect M. Smetona as President for a term of seven years.

661 Opposition to the Tubelis Government steadily accumulated, however,
665 on all sides. The persecution of the Social-Democrats continued,
578 and by 1932 the last of the trade unions was dissolved; there was also friction, from 1931 onwards, between the Government on the one hand, and the Christian-Democrats, morally supported by the Vatican, on the other;[3] and in November 1935 both the Christian-Democratic and the Populist parties were dissolved by a decree which was confirmed and extended to all Opposition parties in February 1936. The unsuccessful attempts to stage the return of M. Voldemaras, made by small groups of officers in June 1934[4] and in January 1936, bore witness to a certain amount of disaffection in the Army.
[468] More serious were the peasant strikes which broke out in the Suvalki district in August 1935 and the spring of 1936, and the workers' demonstration and strike in Kaunas in June 1936, when the troops had to be called out, and a state of siege was proclaimed in the city.
000 The reshuffle of the Cabinet in September 1936, when new appoint-

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[1] In consequence of a series of intrigues he was banished to the country in July 1930, and the 'Iron Wolf' was dissolved in the following August. He was tried and acquitted on a charge of conspiracy in August 1931, and on a charge of misappropriation of funds in September 1932. After the failure of a *putsch*, organized by certain Army officers in June 1934, owing to the loyalty of the majority of the Army and to President Smetona's refusal to negotiate with the insurgents, M. Voldemaras was sentenced by court martial to twelve years' penal servitude on charges of high treason and of accepting assistance from a foreign Power (i.e. Germany). In February 1938 he was granted an amnesty, on the occasion of the twentieth anniversary of Lithuania's independence.

[2] They were boycotted by the Opposition parties, however, on account of certain restrictions on the franchise.

[3] See above, p. 40.

[4] See footnote above.

645 The reshuffle of the Cabinet in September 1936, when new appointments were made to the Ministries of Agriculture and of the Interior, was presumably the direct result of these disturbances, although M. Tubelis repudiated any connexion between the two circumstances.

666 As early as December 1933, President Smetona had foreshadowed the institution of a non-party parliament elected on a corporative basis, but—owing, probably, to the peasant disturbances—the elections to the new *Seimas*, which had been fixed for September 1935, were postponed until June 1936. A new Electoral Law was then published providing for the nomination of candidates by the district and municipal councils instead of by the parties (except in the case of Memel), reducing the number of deputies to forty-nine, and ordaining that votes should be cast for individuals instead of lists. Two seats were allotted to the Jewish minority,[1] and one to the Poles, but none to the German or Russian minorities. Out of a total electorate of 1,136,067, 775,951 (i.e. 68 per cent.) went to the polls; the majority of the deputies returned were either landowners or agricultural experts.

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665 After nearly ten years of non-parliamentary administration, President Smetona summoned the *Seimas* on September 1, 1936, and stated that its task would be to prepare a draft reform of the 1928 Constitution, which was due to expire in 1938, on a corporative and nationalist basis. Meanwhile, the Nationalist party itself had already undergone a reorganization on Nazi lines in 1933, with the substitution of the *Führer* principle for the elective system, and the proclamation of M. Smetona as its supreme head; while, in 1935, it was decided to unite in a common front all the existing patriotic organizations, including the non-political Lithuanian Militia.

642 Finally, in February 1938, the twentieth anniversary of the proclamation of Lithuania's independence was celebrated by the issue of an amnesty to numerous political prisoners (including M. Voldemaras), and by the *Seimas*'s adoption of a new constitution. Although the latter was promulgated on May 12, at the time of writing details of its provisions were not available. It was understood, however, to provide for a single Chamber Diet elected for five years by universal, secret, equal, and direct suffrage,[2] and for a Head of the State with wide powers elected for a seven-year term by delegates of the nation. Vilna was once more declared to be the capital of Lithuania.

The crisis of the following March, when Lithuania was obliged to yield to the Polish ultimatum of the 17th, demanding the renewal

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[1] The Jewish candidates failed to obtain the requisite minimum of votes.

[2] Rules relating to the presentation of candidates, however, were to be determined by a special law.

642 of diplomatic relations, led to the resignation of the Tubelis Government. But the Cabinet formed on March 24, with Father Mironas as Prime Minister, included both M. Tubelis himself and M. Lozoraitis, who retained the portfolio of Foreign Affairs; while any hope of a broadening of the base of representation was disappointed by the exclusion of the Opposition from the new Government.

V. FOREIGN RELATIONS[1]

INTRODUCTION

131 THE emergence of Estonia, Latvia, and Lithuania as independent States required the fall of two great empires, the Russian and the German. To-day their international significance lies in the fact that, together with Poland, they form a buffer between two first-class modern Powers, the Third German Reich and the Soviet Union, and this not merely in a strategic but also in an ideological and an economic sense: strategic, since in the event of either Great Power attacking the other, the role of Belgium in the Great War might well be thrust upon the Baltic States,[2] and their territory be converted into a theatre of war; ideological, because they constitute a narrow wedge between Communist and National-Socialist totalitarian States, to whose rival propagandas they are dangerously exposed; and finally economic, since, on the one hand, the whole area consists of thinly populated agricultural country which is regarded by Germany as being peculiarly suited to extensive German colonization, while, on the other hand, it is a corridor for Russian trade with Western Europe and a seaboard which the Soviet Union might at some time consider it desirable to repossess. Moreover, if either Russia or Germany were to take possession of these countries, the Baltic Sea would be in danger of becoming little more than a private lake.

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829 This antithesis between Germany and Russia did not, however, become apparent in any marked degree until comparatively recently. For the first decade of their history the new Baltic States regarded the Soviet Union as the common menace; Germany was a defeated and disarmed enemy, and it was not until the rise to power of the Nazi movement in 1933 that they began to entertain fears of danger from that quarter.

The problem of how to secure some measures of security *vis-à-vis* the Soviet Union confronted all the north-eastern Succession States,

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[1] For a detailed record of the Baltic in international affairs, see relevant sections of the *Survey of International Affairs* for 1920–3, 1924, 1925 (vol. ii), 1927, 1932, 1934, 1935 (vol. i), and 1936, issued under the auspices of the Royal Institute of International Affairs and published by the Oxford University Press.

[2] Although, since the loss of Vilna, Lithuania has no longer a common frontier with the U.S.S.R.

648 829 including Finland and Poland; but the policy which they adopted in dealing with it varied according to their respective geographical positions and their different political and economic connexions with pre-War Russia, as well as to their special affinities with, or revulsions from, other Powers or one another.

131 504 648 Estonia and Latvia had most to fear from the U.S.S.R. and most to gain from a close Baltic Union, partly on account of their common frontiers with the U.S.S.R., which exposed them to the infiltration of Communism to a dangerous extent, but chiefly because their territory had formerly contained the main outlets of Russian trade with the West. The old Russian ports of Riga, Windau (Ventspils), and Libau (Liepāja) were now Latvian, while Reval (Tallinn), Pernau (Pärnu), and Baltic Port (Paldiski) had fallen to Estonia. Of these, Libau and Baltic Port had been Tsarist Russia's principal naval bases, while Riga had been her third largest Western port, ranking after St. Petersburg and Odessa. All of them were linked up by railways with Great Russia.[1] The serious economic consequences for the new Republics, even more than for the U.S.S.R., of their political separation from their natural hinterland, are described elsewhere.[2]

648 Lithuania, who (after 1920) had no common frontier with the U.S.S.R., had less cause for anxiety in that direction, and was, therefore, relatively indifferent to the advantages of a Baltic Union. In any case successive Governments were preoccupied by prolonged disputes with Poland over Vilna, and later with Germany over Memel.[3] The Vilna dispute, in particular, prevented her for a long time from participating in any form of Baltic *bloc*, since the other interested Powers refused to sign any pact which might involve them in a conflict with Poland, while Lithuania herself refused to sign one from which that possibility had been eliminated.[4]

Finland[5] also, owing to her geographical position, was spared extreme fear of the Soviet Union, since even if the latter were to become involved in a war with Poland or Germany, Finnish territory and neutrality would not necessarily be violated. Moreover, a large proportion of the population, and particularly of the aristocracy, was Swedish, and there was a thriving Swedish political party; in consequence Finland showed a strong tendency to orientate towards the Scandinavian rather than towards the Baltic States, and a marked

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[1] See map.

[2] See below, pp. 192–4.

[3] These disputes are treated in detail in Section VI, p. 89.

[439] [4] Latvia's attitude towards the Vilna dispute was complicated by the fact that the trunk railway connecting the port of Liepāja with Romny, in Russia, passed through Lithuanian territory before entering Poland, so that her trade with that country, as well as with Russia, was affected by the closing of the Lithuanian-Polish frontier.

[5] Finland's foreign policy is dealt with in more detail in the handbook in this series dealing with the Scandinavian States.

648 reluctance to become involved in any disputes between Poland and Lithuania or the U.S.S.R.

Poland herself, although a far larger and more powerful State than her Baltic neighbours, felt her security to be even more precarious than theirs. Not only was she acutely afraid of the U.S.S.R., but the acquisition of Danzig and the 'Polish Corridor' had apparently earned the permanent hostility of Germany, while the occupation of Vilna had led, until 1938, to a state of affairs bordering on undeclared war with Lithuania. For these reasons Poland was one of the chief agents in various schemes for a Greater Baltic Union, formulated between 1919 and 1925.

As to the U.S.S.R., the policy pursued towards the Baltic States was somewhat ambiguous. With each of them a generous peace was
[66I] concluded, conceding full recognition of their independence. On the other hand, it was hoped, by organizing Communist movements within their frontiers, to secure their ultimate adhesion to the Russian Federation of Autonomous Republics. With this end in view everything was done at first to prevent the formation of a Baltic alliance under Polish leadership, on the principle of *divide et impera*; at the same time MM. Chicherin and Litvinov endeavoured, with ultimate success, to negotiate a network of separate non-aggression pacts with each individual State. After 1933 there was a shift of emphasis from fear of the U.S.S.R. to fear of Germany; the more powerful the latter became, the less imminent seemed the danger from the former, particularly after the Soviet entry into the League of Nations in September 1934, and the adoption of a foreign policy to harmonize with this development.

Thus the diplomatic history of North-Eastern Europe may be divided into three phases, which, being conditioned chiefly by changes in the balance of power in the wider European sphere, are more or less clearly marked, although there is a certain amount of chronological overlapping. In the first phase, lasting from 1918 to about 1925, the Baltic States were preoccupied in varying degrees with the construction of some form of defensive military alliance. In the second phase, from about 1925 to 1933, the Soviet Union redoubled the efforts which it had already made during the first phase to render its own position more secure by non-aggression and trade agreements; during this period the idea of a Greater Baltic *bloc* was discarded in favour of a much closer Little Baltic Union. In the third phase, lasting from the end of 1933 up to the present day, the resurgence of Germany led on the one hand to an unsuccessful attempt on the part of France and the U.S.S.R. to negotiate an Eastern Pact, and on the other hand to the final consolidation of the alliance between Estonia, Latvia, and Lithuania in September 1934.

1. THE PEACE TREATIES WITH SOVIET RUSSIA

Taken at their face value, the treaties of peace which Soviet Russia 648
negotiated with Estonia, Latvia, and Lithuania[1] in 1920 were models 728
of restraint and even of generosity. The new Republics obtained *de jure* recognition in identic clauses declaring that 'on the basis of the right of all peoples freely to decide their own destinies, and even to separate themselves completely from the state of which they form a part', Soviet Russia unreservedly recognized their independence and autonomy, and voluntarily and for ever renounced all rights of sovereignty formerly held over their peoples and territories. The new frontiers were defined, and joint commissions set up to carry out their demarcation; in the case of Estonia, neutral zones were established on either side, to be maintained until January 1, 1922, and both parties undertook not to keep armed vessels on the frontier lakes of Peipus and Pskov. In the case of Lithuania, it was stipulated that the Lithuanian-Polish and Lithuanian-Latvian frontiers should be fixed by arrangement with those States.[2]

Provision was made in all three treaties for the exercise, on both sides of the frontier, of the right of option within a limited period of time in the matter of nationality, and also for the amnesty and repatriation of prisoners. In the Latvian and Estonian treaties special arrangements were made for the liquidation of the existing military situation by Joint Commissioners, and for the mutual surrender of all claims on account of war losses or expenses. In every case, Soviet Russia surrendered any claims to the transfer of property, or the compensatory value thereof, and renounced all rights held by the State over real and personal property. Moreover, the Soviet Government undertook to restore, in so far as was possible, the various objects of value—ranging from archives and title-deeds to rolling stock and church bells—which had been evacuated to Russia during the World War. In addition to this reparation in kind, Estonia was to receive 15 million gold roubles, Lithuania 3 million, and Latvia 4 million.

Diplomatic and consular relations were to be established and commercial treaties negotiated, in the case of Lithuania on a most-favoured-nation basis. The Latvian and Estonian treaties, however, contained stipulations that neither party could claim to enjoy privileges granted to a third State by virtue of a Customs or other union. One of the most important provisions related to the unification of transit rates and reciprocal exemption from transit taxes, with the

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[1] For the texts of these Treaties: Tartu (February 2, 1920), Riga (August 11, 1920), and Moscow (July 12, 1920), see *League of Nations Treaty Series*, vols. xi, p. 30; iii, p. 106; and ii, p. 196.

[2] But see p. 90 for subsequent changes in the Soviet-Lithuanian frontier.

648 additional stipulation in Estonia's case that Soviet Russia should be given free docks and warehouse sites in Estonian ports.[1]

728 An interesting feature of the Estonian and Lithuanian treaties is the article providing that 'should the perpetual neutrality of Estonia (*or Lithuania*) be internationally recognized, Russia undertakes to respect such neutrality and to join in guaranteeing it'. Moreover, Estonia and Soviet Russia also agreed to accede to the conditions of any international agreement which might in future be reached for the neutralization of the Gulf of Finland.[2]

The Latvian treaty contained an undertaking on the part of each party not to permit the residence in its territory of representatives or officials of groups having as their object the overthrow of the Government of the other party. This might be taken to refer either to the prohibition of White Russian activities in Latvia,[3] or to Communist propaganda against the Latvian Government directed from Moscow.

2. EARLY POST-WAR DIPLOMACY

648 *Break-down of the First Schemes for a Greater Baltic Union, 1919–22.* As early as the Peace Conference in Paris in 1918–19, a project for a Baltic League had been drawn up and presented by the Estonian delegation, providing for a political and economic union of three separate groups of nations: the first consisting of Denmark, Norway, and Sweden; the second of Finland, Estonia, and Latvia; and the third of Lithuania and Poland. The object of this league was to safeguard the freedom of the Baltic Sea and to establish a common system of defence. In August 1919 an agreement was drafted for a union of Estonia, Latvia, and Lithuania, and in the following September these three States, together with Finland, met to consider negotiating a common peace with Soviet Russia, who, however, refused to contemplate joint discussions. At the first Baltic Conference proper, held at Helsinki (Helsingfors) in January 1920, and attended by Finland, Estonia, Latvia, Lithuania, and Poland, the co-ordination of foreign policy and the organization of a general military defensive union were discussed, as well as the question of the neutralization of the Baltic Sea. At a second conference held in August 1920, at Bulduri (near Riga), it was decided to adopt a draft arbitration convention and to set up a permanent 'Council of Plenipotentiaries'. The Convention was never ratified, however, nor the

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[1] See Appendix II.

[2] No such international agreement has so far been concluded; although in 1925–6 the Finnish and Estonian Governments negotiated agreements with the U.S.S.R. relating to the control over the Gulf and assuring free passage of Soviet vessels to Soviet ports, Estonia declined to neutralize the islands of Saaremaa (Oesel) and Hiiumaa (Dagö).

[3] Similar safeguards against this danger were incorporated in the Lithuanian and Estonian treaties.

Council ever called into being, while the project of defensive alliance 648 fell to the ground through Finland's refusal to adhere to it on account of the Vilna dispute. For the same reason this was the last conference attended by Lithuania for a long time to come.

Thus, nothing had so far been achieved; moreover, a project formed in 1920 for an alliance of the Succession States from the Baltic to the Black Sea had dwindled into a Polish-Rumanian pact, while attempts to induce the Scandinavian States to join with Finland, Poland, and the Baltic States in forming a *bloc* had also been unsuccessful. The Finnish Foreign Minister, M. Holsti, now made a determined attempt to secure a military alliance with Estonia, Latvia, and Poland. A conference at Helsinki in July 1921 resulted in the signature of a protocol on July 24, providing for the holding of periodic conferences of the Foreign Ministers of the four countries, as well as in the conclusion of a commercial treaty between Estonia and Finland; but at a second conference of the same Powers, on March 13–17, 1922, this time at Warsaw, the Holsti scheme broke down completely. A Convention[1] was concluded by which the four Powers reciprocally confirmed their respective peace treaties and pledged themselves to communicate to one another the texts of any treaties which might in the future be concluded with other States. Moreover, provision was made for the arbitration of future disputes,[2] for the observance of a benevolent neutrality towards any signatory State which might be attacked without provocation, and for immediate consultation with regard to the steps to be taken in such circumstances (Article 7). This Convention never came into force, however, as Finland refused to ratify it on the ground that Article 7 might involve her in a Soviet-Polish war. M. Holsti was obliged to resign his office, and the hope of a four-Power military alliance was brought to an end for a time. Fortunately, the admission of the Baltic States into the League of Nations in 1921[3] had to some extent lessened the general sense of insecurity, and in July of that year a preliminary political and military agreement was concluded between Estonia and Latvia.

Abortive Negotiations for a Soviet-Baltic Disarmament Pact in 1922. About the time of the Warsaw Conference, the Soviet Government put forward proposals for disarmament and the establishment of demilitarized frontier zones. On the initiative of M. Meierovics, the Latvian Foreign Minister, the U.S.S.R. and the Warsaw Powers were invited to send representatives to a conference at Riga, where on

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[1] For text, see *League of Nations Treaty Series*, vol. xi, p. 168.

[2] For text of Arbitration and Conciliation Agreement, see *League of Nations Treaty Series*, vol. xxxviii, p. 358.

[3] The Baltic States were represented on the League Council by Finland from October 1927–30, and by Latvia from October 1936 for a period of three years.

648 March 30, 1922, a protocol[1] was signed reaffirming the sanctity of the treaties, agreeing to the establishment of neutral zones, and advocating the renewal of trade relations with the Soviet Union. But, owing to objections raised by some of the Powers concerned, and by Finland in particular, it never came into force. In the following April the Baltic States were represented at the Genoa Conference, whose chief object was the establishment of normal relations between Europe and the Soviet Union, but which failed to produce any tangible results beyond the unintended one of a German-Soviet treaty signed at Rapallo on April 16, 1922, and an ephemeral pact of non-aggression which lasted only two months, until the break-up of the Hague Conference.

Finally, in June 1922, a more determined attempt to secure the desired agreement was made by M. Litvinov, who sent identic Notes inviting Estonia, Latvia, Poland, and Finland to attend a conference on the question in Moscow. Lithuania was not invited until November, and then without the knowledge of Poland; Rumania was also invited, but declined owing to the Soviet refusal to recognize the Bessarabian frontier. After preliminary consultations of the Warsaw Powers at Tallinn in August and October, the conference assembled in December. While the Soviet delegation was anxious to discuss disarmament first and a non-aggression pact afterwards, Poland and the Baltic States insisted on reversing this order. A pact was first drawn up,[2] therefore, by which the five signatories undertook to refrain from any act of aggression against one another, or from supporting any non-signatory State committing such an act against one of their number, and agreed to decide all disputes among themselves by peaceful means. A special agreement was to be drawn up providing that disputes arising on subjects not regulated by the Peace Treaties, or out of the existing territorial position, should be referred to arbitration. Unfortunately, the signature of the non-aggression pact was to be linked with that of a disarmament agreement; and when the latter came to be discussed, a deadlock arose over the question of 'moral' disarmament, and, since the Soviet Union declined to make any pledge that Communist propaganda in the Succession States should cease, the conference broke up without achieving any results.

Poland and the Baltic Bloc. Apart from the periodic conferences provided for by the protocol signed in 1921 by Finland, Poland, Estonia, and Latvia, the next important meeting of these four Powers took place at Riga in July 1923, when proposals were considered for the reduction of naval armaments on the east coast of the Baltic Sea, and it was agreed to support proposals for armaments reduction and a general treaty of guarantee at the next League Assembly. At the

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[1] For text, see *Soviet Red Book*, 1923, pp. 239–41.

[2] Ibid., pp. 152–3.

Seventh Baltic Conference at Warsaw in February 1924, however, a 648 proposal for joint action at the next Assembly was opposed by Poland, while a proposed treaty of arbitration was abandoned owing to Finnish opposition.

In the meantime progress was made towards the closer union of the three Baltic States proper, or at least of Estonia and Latvia. The preliminary agreement of 1921 between these two countries was now consolidated by a ten-year Treaty of Defensive Alliance,[1] signed on November 1, 1923, which provided that the two countries should concert together and give mutual political and diplomatic support in their international relations, that if either party were attacked on its existing frontiers without provocation the other should immediately come to its assistance, and that all disputes between them should be referred either to the Permanent Court of International Justice or to some other form of arbitration. Each party also undertook not to enter into an alliance with a third party without the other's consent. At the same time, a preliminary treaty establishing 439 an economic and Customs union was signed, containing a clause 648 whereby each party enjoyed all the rights and privileges which had been or might in future be granted to other nations, and providing among other things for the establishment of a mixed commission which should complete the work of co-ordinating tariffs and tariff legislation within a period of three months.[2]

At the beginning of 1925 it seemed as if Poland's policy of uniting 648 the north-eastern States under her leadership might be successful. At a conference of the four States at Helsinki in January, with Lithuania as an observer, the three smaller Powers, with the impression left by a serious Communist rising in Estonia in the previous December still fresh in their minds, proved more than usually sensible of the Russian danger, and therefore more disposed to conciliate Poland. A general Convention[3] was concluded, and subsequently ratified on September 7, 1925, by which the signatories undertook to submit to conciliation or arbitration any disputes arising between them which could not be solved by diplomatic procedure, with the exception of those relating to the territorial status of the contracting parties, as well as of disputes 'the legal nature of which makes them

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[1] *League of Nations Treaty Series*, vol. xxiii, p. 82. The Treaty was ratified on February 21, 1924. At the end of the ten-year term either party might denounce it on giving one year's notice; as neither has done so, the Treaty is still in force.

[2] This preliminary agreement was replaced by a definitive treaty on February 5, 1927, which appointed a mixed commission not only to draft a joint Customs tariff and co-ordinate the existing tariff legislation, but also to unify the laws relating to taxation, trade marks, labour legislation and so forth, to co-ordinate the policy of the central banks, and to unify trade treaties with other countries; for text see *League of Nations Treaty Series*, vol. lxii, p. 319. In actual fact, however, these treaties have never been implemented.

[3] For text see League of Nations Document, C. 34. 1926 (*Arbitration and Security*), p. 121.

648 subject solely to the domestic legislation of the party concerned'. A Permanent Conciliation Commission was to be established under a neutral chairman, but any dispute might by agreement be submitted direct to the Permanent Court of International Justice at The Hague.

Actually, however, the Helsinki Convention represented the high-water-mark of Polish efforts to create a larger Baltic Union. With the slackening of Soviet Communist propaganda during 1925, and the improvement of relations with Germany in the summer,[1] the desire for such protection as Poland could afford became less acute. The periodic conference of the four Powers in August 1925 was largely formal, and, although measures were discussed for accelerating the entry into force of the Helsinki Convention, the arrangements for holding the next conference were left indefinite. On the other hand, the prospects of the Little Baltic Union seemed to be growing brighter. In May 1924 a conference convened on the initiative of Lithuania had met at Kaunas to consider the possibility of extending the Estonian-Latvian Customs Union to Lithuania, and it had been decided to appoint committees of experts to work out a scheme which should then be put into effect by a further conference. The three Powers also appear to have agreed upon a concerted foreign policy wherever possible, and in particular at the League Assembly. In July 1925, and again in 1926, conferences between Latvia and Lithuania were held at Kaunas with a view to negotiating an economic treaty on the lines of the Latvian-Estonian trade treaty, as well as an arbitration treaty. The practical results of all three conferences were negligible; the fact that they were held was, however, symptomatic of the gradual abandonment of the idea of a Greater Baltic Union for that of a purely Baltic *bloc*—a change of policy which caused alarm and suspicion in Poland. In August 1925 the Latvian Foreign Minister declared openly that the question of the formation of a four-Power union of Finland, Latvia, Estonia, and Poland was no longer urgent, and predicted that sooner or later a close alliance between Estonia, Latvia and Lithuania was bound to materialize.

3. Relations with the Soviet Union, 1925–33

Negotiations for Bilateral Pacts of Non-Aggression, 1925–7. During the years 1923–4 Soviet foreign policy was preoccupied with affairs of wider scope, and it was not until 1925, after the lapse of the Geneva Protocol, that tentative negotiations for non-aggression pacts with

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[1] Germany concluded arbitration conventions with Finland and Estonia in March and August 1925, respectively. In the early post-War period various treaties were concluded between Germany and the Baltic States; Estonia signed a provisional commercial agreement in June 1923 and an arbitration convention in August 1925; Latvia concluded a provisional agreement for the resumption of relations in July 1920, and commercial agreements in September 1921 and May 1922; Lithuania signed an agreement for the settlement of outstanding questions in May 1923, and commercial and frontier traffic agreements in June 1924.

Poland and the Baltic States were begun. The Polish Government, suspecting an attempt to break up the Warsaw front by the initiation of separate negotiations, replied to the Soviet Government's overtures in the summer that she could consider no offer which was not made to all the Baltic States alike, and made Polish co-operation conditional on the convening of a conference which should include Finland also. A Soviet invitation to the Baltic States themselves, to negotiate an agreement based on an undertaking that they would remain neutral in the event of a war between the Soviet Union and a third Power, and on the submission of disputes to arbitration, received no reply. An interesting light is thrown on Soviet Baltic policy at this time by a statement of M. Chicherin, during an official visit to Kaunas, to the effect that while his Government had no objection to a pacific, economic, and political union between the Baltic States, it disapproved of the Polish conception of a Baltic Union acting, under Polish leadership, as a barrier 'in defence of European civilization against the Asiatic Barbarians'.[1]

On March 5, 1926, the Soviet Government made fresh overtures with a view to concluding pacts of non-aggression with Finland and the three Baltic States. While still refusing to include Poland in a collective agreement,[2] M. Litvinov appeared for the moment to have waived his insistence on separate negotiations with each of the other States, and his chances of success were rendered the more favourable by the conclusion, on April 25, 1926, of a Treaty of Neutrality and Non-aggression with Germany, which relieved the small border States of considerable anxiety. Moreover, in the case of Lithuania, the Soviet Government was able to exploit the hostility towards Poland caused by the Vilna controversy, which was becoming increasingly bitter, especially after the Polish Concordat with the Vatican whereby Vilna was recognized as a Polish diocese.

Separate negotiations begun between the U.S.S.R. and Lithuania in the spring terminated in the signature of a treaty at Moscow on September 28, 1926,[3] modelled on the non-aggression pacts already

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[1] *Deutsche Allgemeine Zeitung*, December 30, 1925.

[2] In a statement in *Izvestia* of April 27, 1926, M. Litvinov, Acting Commissar for Foreign Affairs, explained:

> 'We are proposing a treaty of guarantee to the Baltic States whether separately, collectively, or with a group among them. . . . Unfortunately all our efforts to arrive at a full understanding with Poland have always been obstructed by the attempt of the Poles to try to manage the foreign relations of all the Baltic States . . . she (Poland) insists on speaking in the name of all the Baltic States which, so far as we know, have not entrusted her with this power.'

Later in the year, however, the Soviet Government embarked on separate negotiations for a non-aggression pact with Poland, and by September 1927 some measure of agreement appears to have been reached on certain points.

[3] This treaty was renewed on May 6, 1931, for a period of five years, and was again prolonged until December 31, 1945, by a Protocol signed on April 4, 1934; for text see *League of Nations Treaty Series*, vol. lv, p. 145.

648 concluded by the U.S.S.R. with Germany and Turkey. Its first Article stated that the relations between the two countries would continue to be based on the Treaty of Moscow signed in 1920. The implied recognition of Lithuania's claim to Vilna was reinforced by an accompanying Note from M. Chicherin stating that the '*de facto* violation' of Lithuania's frontiers had not shaken the Soviet's attitude towards the territorial sovereignty defined in the Treaty of Moscow. The second and third Articles of the Treaty bound each party to respect the other's territorial integrity, and to adopt a neutral attitude towards any third Power attacking it.[1] Finally, the signatories undertook, in the event of disputes arising between them which could not be settled by diplomatic procedure, to appoint conciliation commissions in accordance with an agreement to be concluded separately. Negotiations for a commercial treaty were also begun, but were broken off in December 1926 as a result of the Nationalist *coup d'état* in Kaunas.

The separate negotiations leading up to this Soviet-Lithuanian Treaty had aroused considerable uneasiness in Estonia and Latvia, as well as in Poland. In July the Latvian Foreign Minister, M. Ulmanis, visited Kaunas in an unsuccessful attempt to draw Lithuania back into the common Baltic front, and to negotiate treaties of trade and arbitration, while the Polish Government made overtures for the resumption of diplomatic relations. The actual conclusion of the Treaty, and in particular the clause implying the recognition by the U.S.S.R. of the Lithuanian claim to Vilna, led to the dispatch, on October 28, 1926, of a Polish Note of protest to the Soviet Government, which, however, received but a vague and inconclusive reply.

Meanwhile Soviet negotiations with Estonia and Latvia jointly, and separately with Finland, had been proceeding less smoothly. The Soviet Note of March 5, 1926, had proposed a mutual guarantee of existing frontiers, a mutual pact of non-aggression and neutrality, and an undertaking not to join a coalition against any of the parties. In their reply, dispatched on April 28, 1926, in the form of identic Notes, Estonia and Latvia put forward the following counter-proposals: the treaty of guarantee should include an undertaking to avoid anything calculated to disturb friendly relations between the parties; a State which commenced war against another contracting party, or a State which committed an aggression against the territorial integrity or political independence of another party, with or without a declaration of war, should be recognized as an aggressor; 648 nothing in the proposed convention should conflict with the League Covenant, or with the Estonian-Latvian Alliance; all disputes without exception should be settled by arbitration or conciliation; the contracting parties should undertake not to allow propaganda of any kind against another party on that party's territory; the signatories should retain the right to conclude treaties with other States, provided that they were not directed against a contracting party; in the event of one party attacking another in violation of the convention, all the signatories should recover their freedom of action; and finally, the proposed convention should be open to the adherence of any other government, with the consent of all the signatory States. The Finnish Government replied to the Soviet Note on May 5, in almost identical terms.

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[1] A supplementary Note from the Lithuanian Foreign Minister, however, stipulated that this pledge should not interfere with the fulfilment of Lithuania's obligations under the League Covenant, while at the same time observing that the Lithuanian Government did not, in view of Lithuania's geographical position, consider that such obligations could constitute an obstacle to her aspirations to neutrality.

The Soviet Government then submitted a draft treaty to Estonia and Latvia, and initiated verbal discussions with Finland, to whom it finally presented a further Note on July 12. After a conference of the Foreign Ministers of Finland, Estonia, and Latvia at Tallinn on July 13–14, identic Notes were dispatched on the 24th, proposing the creation of a joint commission to work along the lines suggested in their previous Notes. The U.S.S.R., however, rejected this proposal, and a new phase of separate negotiations was inaugurated by the dispatch of identic Notes from the three Baltic States on August 24, expressing their readiness to negotiate individually with the Soviet Union, while reserving the right to keep in close touch with one another in the matter.

Conversations between Finland and the U.S.S.R. broke down, however, in November, as the latter refused to agree to the appointment of a neutral chairman in the proposed commission of conciliation, rejected absolutely the principle of arbitration, and insisted on the insertion of a clause empowering either party to cancel the treaty in the event of the other party concluding an agreement with a third Power.

Discussions with Estonia and Latvia also reached a deadlock for similar reasons. In March 1927, however, the Soviet Government showed signs of making certain concessions; while maintaining its objection to the principle of arbitration, it now agreed to the appointment of a neutral chairman on the conciliation commission, and to the publication, simultaneously with the treaties, of unilateral statements by Estonia and Latvia on the question of their obligations under the League Covenant. Negotiations with these two countries now took independent courses; those with Estonia were eventually suspended, but in Latvia the Social-Democratic Government of M. Skujenieks was anxious, mainly for economic reasons, to come to an

648 understanding with the U.S.S.R. and consented to initial a Pact of Non-aggression on March 9, 1927; in doing so, however, actual signature was made dependent on the simultaneous signature of a convention of conciliation providing for a neutral chairman, as well as on Soviet assent to a unilateral declaration of Latvia's fidelity to her [439] obligations under the League Covenant. In the following June Latvia concluded a five-year commercial treaty[1] with the U.S.S.R. which aroused strong criticism in Estonia—already resentful at Latvia's independent action in the matter of the non-aggression pact —on the ground that it rendered unworkable the Estonian-Latvian Customs Union. The trade agreement was also criticized by the Latvian industrialists, who complained that it granted privileges to the Soviet commercial organizations in Latvia which were not accorded to Latvian citizens in the Soviet Union, and pointed out that the diplomatic immunity conceded to the members and premises of the Soviet Trade Agency had already been grossly abused in other countries.

Thus, the efforts of the Soviet Government during the years 1925–7 were rewarded by a fair measure of success in so far as Lithuania and Latvia were concerned, although the Soviet-Latvian Non-aggression Pact was not actually signed. Moreover, the U.S.S.R. had concluded agreements with Latvia on July 19, 1926, and with Estonia on August 8, 1927, laying down the procedure for the settlement of frontier disputes. In reality, however, the situation at the end of this period had not changed to any great degree, and it was not until early in 1932 that Finland, Estonia, and Latvia felt sufficiently confident of Soviet good faith to conclude the much-desired treaties of non-aggression.

The Litvinov Protocol, 1928–9. In the meantime the Soviet Government directed its energies towards persuading the various States on its western borders to anticipate regionally the general application of the Pact of Paris for the Renunciation of War, which had been signed on August 27, 1928 by fifteen States, including the U.S.S.R., but which was not to come into force until after the deposition of ratification by all the signatories. In a Note to the Polish Government on December 29, 1928, M. Litvinov enclosed a draft protocol providing that the General Treaty should come into force, as between the two countries, immediately after its ratification by their respective legislative bodies, and that it should be open to adherence by any other State. A similar Note was addressed to the Lithuanian Government, which accepted the proposal and communicated it to the Governments of Estonia and Latvia with the recommendation 648 that they also should do so. The Polish Government's reaction was more cautious. Suspecting, in the Soviet Government's method of individual approach, some attempt to isolate the border States from one another, and being unwilling to conclude any agreement from which their ally, Rumania, was excluded, they at once informed the latter of the Soviet suggestion, and replied on January 10, 1929, that they accepted M. Litvinov's proposal in principle, subject to previous consultation with their co-signatories of the Pact of Paris, and with the other border States.

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[1] For text see *League of Nations Treaty Series*, vol. lxviii, p. 321. A new commercial treaty was concluded between Latvia and the U.S.S.R. on December 4, 1933; for text see *League of Nations Treaty Series*, vol. cxlviii, p. 114.

After further exchanges of Notes relating chiefly to the inclusion of Rumania,[1] to which M. Litvinov agreed on January 12, Soviet-Polish discussions as to procedure were begun in Moscow, and it was decided that five of the States concerned—Poland, Rumania, Latvia, Estonia, and the U.S.S.R.—should sign the Protocol simultaneously on February 7. Finland had taken no part in the negotiations, apparently considering herself, now, as a member of the Scandinavian, rather than of the Baltic, group of States; Lithuania had arranged to sign later, in order to avoid any appearance of amity with Poland. Signature of the Protocol was postponed at the last moment, however, in order that those States which had not yet ratified the Pact itself should first submit that treaty to their respective legislative bodies. The General Treaty was approved by the Polish Diet on February 7, and ratified by Estonia on February 8; on the 9th the Protocol was signed at Moscow,[2] although the Latvian Foreign Minister's signature was provisional pending Latvia's formal ratification of the General Treaty on February 12. Finally, ratifications of the Protocol were deposited at Moscow by the U.S.S.R. and Latvia on March 5, by Estonia on the 15th, and by Poland and Rumania on the 30th. Lithuania's signature followed on April 1. Invitations to Turkey, Persia, and the Free City of Danzig to adhere to the Protocol were subsequently proffered and accepted. The negotiations just described were remarkable in three respects: in the first place, they revealed a new readiness on the part of the Soviet Union to deal collectively instead of individually with the border States; secondly, they foreshadowed more conciliatory relations between Rumania and the U.S.S.R., in spite of continued friction over the Bessarabian frontier; and finally, they culminated in an agreement to which, for the first time. both Lithuania and Poland consented to subscribe.

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[1] The principal difficulty here arose out of the Soviet's refusal to recognize the Rumanian annexation of Bessarabia in 1920, the consequences of which were that the frontier remained closed and diplomatic relations were not resumed.

[2] For text see *League of Nations Treaty Series*, vol. lxxix, p. 369.

648 *Conclusion of Non-Aggression Pacts by Finland, Estonia, and Latvia, 1932.* Early in 1932 the Treaties of Non-aggression with Finland, Latvia, and Estonia for which the Soviet Government had worked so long, were at last concluded. The Soviet-Finnish Treaty came first, on January 21; Latvia followed with a three-year Non-aggression Pact signed at Riga on February 5,[1] and a supplementary Convention of Conciliation on June 18.[2] Finally, two similar agreements for non-aggression and conciliation were concluded in Moscow between Estonia and the U.S.S.R. on May 4 and June 16 respectively.[3]

The Latvian and Estonian Treaties, the terms of which were practically identical, represented a compromise with the Soviet Government's principles. Each contained a clause to the effect that the obligations under the present Treaty should not affect the international obligations devolving on the contracting parties from treaties concluded or obligations assumed prior to the entry into force of the present Treaty, in so far as the latter contained no 'elements of aggression within the meaning of the present Treaty'. On the other hand, the Baltic States gave way over the question of the appointment of a neutral chairman on the Conciliation Commissions provided for by the supplementary Conventions of Conciliation. Both the Estonian and Latvian treaties, as well as the Soviet-Lithuanian Non-aggression Pact of 1926, were renewed until December 31, 1945, by Protocols signed in Moscow on April 4, 1934, while the Soviet-Finnish Treaty was also renewed for the same period on April 7 of that year.

4. THE RESURGENCE OF GERMANY

By the beginning of 1933 great changes in the pattern of world politics had become apparent, changes the implications of which were as profoundly felt in the restricted sphere of Baltic affairs as in any other part of Europe. The Nazi party's accession to power on January 30, 1933, coupled with the doctrine of German eastward expansion set forth by Herr Hitler in *Mein Kampf*, and openly preached by his adviser on foreign affairs, Herr Rosenberg (himself of German-Baltic stock), was sufficient cause for uneasiness on the part of Baltic statesmen, particularly in view of the existence of considerable German minorities, the protection of whose interests might serve as a pretext for German interference in the domestic affairs of their countries. For the U.S.S.R. there were menaces on two fronts. The official co-operation which had continued between the Soviet and German armies ever since the Rapallo Treaty of 1922 was now broken off, and the policy of *rapprochement* suffered a complete reversal;

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[1] For text see *League of Nations Treaty Series*, vol. cxlviii, p. 113.

[2] Ibid., p. 130.

[3] Ibid., vol. cxxxi, pp. 298 and 310.

moreover, Nazi Germany was known to have aspirations in the Ukraine. Japan, on the eastern flank, was developing an increasingly militarist spirit, and already in 1932 had established sovereignty over Manchuria, and virtual control over the Chinese Eastern Railway. The worst fear was that these two enemies might sometime unite in a simultaneous attack on Soviet territory.

The effect of these developments on the Baltic States, it has already been noted, was twofold. On the one hand, M. Litvinov redoubled his efforts to secure the western frontier by means of pacts of non-aggression or mutual assistance—quite abandoning his earlier aversion to the principle of collective action; while, on the other hand, there was a marked tendency on the part of the 'Little Baltic' States to draw closer together. In recent times there has been a noticeable hesitation, among the border Powers, between the policy of defensive alliance with the U.S.S.R. inaugurated by Czechoslovakia, on the one hand, and that of conciliation with Germany adopted by Poland, on the other.

The Convention defining Aggression, 1933. In the course of discussion in the Disarmament Conference on the definition of aggression, the Soviet delegate put forward a proposal on February 6, 1933, which formed the basis of the Draft Convention adopted by the Politis Committee at Geneva on May 24. Shortly afterwards a series of articles by M. Radek appeared in *Izvestia*, attacking the discussion of treaty revision as 'the smoke screen behind which Imperialism prepares the most terrible and ruthless war that the human brain can conceive'. The change of direction of Soviet foreign policy implicit in this semi-official declaration was admirably calculated to reassure any States which might still entertain the suspicion that the U.S.S.R. harboured aggressive designs on their territorial integrity.

During the World Economic Conference in London in the following June M. Litvinov approached the signatories of the Litvinov Protocol of 1929 with a view to securing their anticipatory adhesion, as between themselves, to the Geneva Draft Convention defining aggression, without waiting for a general disarmament convention. His proposals were accepted by all but Finland and Lithuania, and a Convention[1] was signed on July 3 by eight States, including Estonia, Latvia, Poland, and the U.S.S.R. An appendix to the Convention enumerated certain circumstances which should not be considered as justifying any of the acts of aggression defined therein, including 'the internal position of any State, as, for example: its political, economic or social structure; alleged shortcomings of its administration; disorder following upon strikes, revolutionary or counter-revolutionary movements, and war'. It would appear from this stipulation that the Soviet Government had at last admitted the propriety of putting some curb on the activities of the Third International, although subsequent experience can hardly be said to have justified such an assumption.

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[1] For text see *League of Nations Treaty Series*, vol. cxlvii, p. 67.

On July 5 Lithuania concluded with the U.S.S.R. a separate bilateral agreement identical in terms with the multilateral convention of July 3, thus avoiding any direct agreement with Poland; finally, on July 23, Finland adhered to a Five-Power Convention couched in similar terms and signed by the members of the Little Entente, Turkey, and the U.S.S.R. on July 4.

Negotiations for an Eastern Locarno, 1934–5. With the conclusion in 1932 of pacts of non-aggression between the U.S.S.R., on the one hand, and Poland and her ally, France, on the other, Polish aspirations to create an anti-Soviet Baltic *bloc* had died a natural death. On January 5, 1934, it was learnt that the Governments of Poland and the U.S.S.R. had approached the Baltic States with a suggestion for a joint Soviet-Polish guarantee of their security. The Finnish Government, however, had apparently quashed the idea on the ground that the existing non-aggression treaties rendered such a guarantee unnecessary. The Baltic States were, in fact, in a somewhat delicate position, for, while they would have wished to secure some form of international guarantee against German aggression, at the same time they feared that a treaty in which Germany herself was not invited to participate would merely excite her resentment and increase the danger of war instead of diminishing it. A few weeks later an entirely new element in the situation was introduced by the signature on January 26, 1934, of a German-Polish Non-aggression Declaration in which the contracting parties pledged themselves, for the next ten years, not to resort to force as a means of settling their differences with one another.

M. Litvinov's next step was to suggest, on March 28, that Germany should join in the proposed pact as a guarantor. Here, too, he was unsuccessful, for, on April 25, the German Government replied with a flat refusal on the ground that such a guarantee was unnecessary. In May, therefore, the Baltic States definitely rejected the proposal of a Soviet-Polish guarantee as being useless without the inclusion of Germany. The alarm of the U.S.S.R. at the withdrawal of Germany from the Disarmament Conference in October 1933, and at the German-Polish Agreement, was too great, however, to allow of the abandonment of the project altogether.

On May 18 M. Litvinov visited Geneva and discussed with M. Barthou the possibility of resuscitating the project for an Eastern Locarno, first put forward by M. Briand in 1925 at the time of the Locarno Treaty negotiations. The Quai d'Orsay proceeded to draft a project for an Eastern European pact of security and mutual assistance, which was discussed by Sir John Simon and M. Barthou during the latter's visit to London in July, when it began to take definite shape. It was proposed to invite the Governments of the U.S.S.R., Germany, Poland, Czechoslovakia, Finland, and the Baltic States to enter into a pact binding them, not only to refrain from supporting any signatory committing an act of aggression against one of their number, but also to consult and concert measures in support of any signatory who should be the victim of such an act. Simultaneously with the conclusion of this pact, it was suggested, France and the U.S.S.R. should adhere in the capacity of additional guarantors to the Eastern Pact and the Locarno Pact respectively, while the whole project was to be crowned by a General Act stressing the pacific intention of the treaties and their compatibility with the Covenant of the League.

The British Government adopted a sympathetic attitude towards the plan; on July 12 its diplomatic representatives presented draft texts of the three treaties to the Governments of Italy, Germany, and Poland with a request for their comments, and, on the 13th, Sir John Simon stated in the House of Commons that Great Britain favoured the proposals for an Eastern Pact, on condition that Germany were included in it, that its provisions were reciprocal and not directed against any one country, that the Soviet Union entered the League, and that no fresh commitments were involved on the part of Great Britain. The Italian Government's reactions were very similar, and both countries were inclined to stress the importance of linking up the question of the Eastern Pact with negotiations for a convention giving reasonable equality of rights in armaments to Germany. Germany and Poland, on the other hand, were opposed to the pact on the ground that the security of Eastern Europe was already sufficiently guaranteed by the existing bilateral treaties. Poland's change of front in this respect is probably explained by the signature of the 'pact of understanding' with Germany in the previous January. For both Germany and Poland the question was complicated by the impossibility of leaving Lithuania out of the proposed pact, which would stabilize the *status quo* with regard to Memel and Vilna. Moreover, it was difficult for Germany to reconcile a pact with the U.S.S.R. with the tenet that the Reich constituted the chief bulwark of Europe against Communism. The German Government, therefore, replied to the British Note on September 10 that Germany could undertake no engagement which might involve entanglement in Eastern conflicts and convert German territory into a theatre of war; that, while all possibility of a multilateral pact based on the principle of non-aggression was not excluded, a pact involving mutual

648 assistance was out of the question; that, in general, bilateral agreements were to be preferred; and, finally, that in any case the question of Germany's right to equality in respect of armaments must be settled first. The Polish reply on September 27 was understood to be on similar lines, and to have contained an objection to any guarantee of the frontiers of Czechoslovakia and Lithuania, and a stipulation that new obligations must be compatible with existing engagements (i.e. with the German-Polish Agreement).

The Baltic States themselves, not having been informed of the terms of the proposed pact, maintained a non-committal attitude, while Finland appeared to be definitely opposed to it. Official visits paid by the Polish Foreign Minister, Colonel Beck, to Tallinn and Riga in July, with a view to discouraging Estonia and Latvia from supporting the pact, resulted in a cautious statement that the Governments of Estonia, Latvia, and Poland were agreed that they must await further information. Immediately afterwards, however, the Foreign Ministers of Estonia and Latvia visited Moscow, and on July 29 made identic declarations that their Governments were in principle in favour of the Eastern Pact, while reserving their final decision pending the receipt of the text and also the right to suggest amendments. On July 31 the Lithuanian Foreign Minister also arrived in Moscow to discuss the question, and a *communiqué* issued at the close of the conversations stated that Lithuania was in favour of the pact.

On the receipt of the unfavourable replies from Germany and Poland, however, negotiations were allowed to lapse for the time being. While France and the U.S.S.R. had failed to secure the conclusion of the Eastern Pact, the other parts of the proposal were carried out, and the Soviet application for admission to the League in September was successful. After M. Barthou's assassination in October, discussions were resumed by M. Laval, who was distinctly less hostile to Germany, but the gradual *rapprochement* of France and the U.S.S.R. was strengthened in December 1934 by an agreement, to which Czechoslovakia afterwards adhered; by this they agreed to continue negotiations for an Eastern Pact, and undertook not to enter into conversations with third Powers without first consulting each other.

The Eastern Pact was again discussed during M. Laval's visit to London in February 1935, when, on February 3, a joint declaration was published recommending the pursuance of general negotiations; and on March 13 the Ministers of Latvia, Lithuania, and Estonia called on the British Foreign Secretary and informed him that their Governments were in favour of the conclusion of an Eastern European Pact. In the conversations between Herr Hitler, Sir John

Simon, and Mr. Eden in Berlin in March 1935, the German objections to the principle of mutual assistance were reiterated, although Herr Hitler expressed readiness to conclude bilateral pacts of non-aggression with Germany's neighbours, with the exception of Lithuania for as long as the Memel dispute remained unsettled. On March 26 some progress was made when a German Note was presented to Sir John Simon; this, while stating that Germany could not accede to the Eastern Pact in its proposed form, at the same time suggested that the Powers interested in East European questions should conclude a ten-year collective agreement based on the principles of non-aggression, arbitration and conciliation, and neutrality, and containing provision for the summoning of a conference of the contracting parties, at the request of any signatory considering itself threatened with aggression, 'in order to deliberate on the situation, and, if necessary, on the steps to be taken for the maintenance of peace'.

The situation, however, had been radically changed by Germany's unilateral denunciation of the Armaments Clauses of the Treaty of Versailles and the proclamation of compulsory military service on March 16. As a result, the French, Soviet, and Czechoslovak Governments determined to achieve some form of pact, with or without the co-operation of Germany and Poland (who had shown an inclination to support the German counter-proposal). On April 9 it was announced that the French and Soviet Governments had agreed in principle to conclude a convention of mutual assistance, that negotiations for a similar agreement between the U.S.S.R. and Czechoslovakia were in process, and that the Soviet Government had made similar overtures to the Baltic States. The latter, however, were reported in May to have refused to adhere to any pact which did not include Germany, although a *communiqué* issued after the periodic conference of Baltic Powers at Kaunas on May 6–8, reaffirmed their readiness to take part in a regional agreement for security.

Even after the Franco-Soviet announcement of April 9, the German Government consented on April 12, at the request of Sir John Simon, who was then at Stresa, to give an assurance that their offer of March 26 still held good, and that bi- or multilateral military engagements (such as the projected Franco-Soviet Pact) would not deter them from concluding a pact of non-aggression on the basis set out therein; but the League Council's condemnation, on April 17, of Germany's unilateral repudiation of her treaty obligations by her introduction of conscription in the previous March, together with the actual signature of pacts of mutual assistance between France and the U.S.S.R. on May 2, and between Czechoslovakia and the U.S.S.R.

648 on May 16, dealt the final death-blows to all hope of German collaboration in a multilateral agreement. Franco-British proposals for a renewal of discussions in June were met by a statement that Germany considered her undertaking of April 12 to have lapsed in consequence of the Franco-Soviet Pact, and that her commitments would be limited in future to the offer of bilateral pacts of non-aggression. Finally, the whole question of an Eastern Locarno was pushed into the background by the Italo-Abyssinian dispute.

The Completion of the 'Little Baltic' Union, 1934–5. As early as September 1922 the Latvian Socialist leader, M. Cielens, apprehensive of the growing strength of Germany, had urged the conclusion of a defensive alliance between Latvia, Estonia, and Lithuania, while the spring of 1933 saw the resuscitation by M. Lindhagen, formerly Mayor of Stockholm, of the old idea of a Scandinavian-Baltic *bloc* which should include Poland. In May the Swedish Foreign Minister, M. Sandler, went so far as to state that such a pact was a desirable goal, provided that it was not directed against any other Power.

648 439 Moreover, the evil effects of the world economic crisis on the trade of the Baltic States had prompted Estonia in February 1932, and Latvia [illegible] January 1933, to propose a Customs union between Lithuania and themselves. The long delay in the realization of all such schemes may be explained, in part, by the fact that the economic systems of the three countries are in no sense complementary to one another, since they are all predominantly agricultural in character. Lithuania, in particular, was more interested in the establishment of satisfactory trade regulations with Germany and Great Britain than with her Baltic neighbours; while even the Estonian-Latvian Customs Union had never been carried out in practice. After an economic conference of the three States in September 1933, however, it was decided to set up a permanent commission to prepare the way for the co-ordination of monetary policies and the increase of reciprocal trade preferences.

648 The conclusion of the German-Polish Agreement in January 1934, and Germany's refusal shortly afterwards to participate as a guarantor in the Baltic security pact proposed by the Soviet Government, finally precipitated a *rapprochement* between Estonia, Latvia, and Lithuania. The Latvian-Estonian Treaty of Alliance concluded in 1923 was now strengthened by a Treaty of Defensive Alliance,[1] signed on February 17, 1934, and modelled on the recently concluded Balkan Pact, as well as on the Pact of Organization signed by the Little Entente in February 1933. The new agreement provided for the joint representation of the two signatories at all international

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[1] For text see *League of Nations Treaty Series*, vol. cl, p. 104.

conferences by a single delegate, and for the constitution of a permanent joint council for the co-ordination of legislation and, if necessary, of political and economic action; the hitherto occasional conferences between the two countries were henceforth to take place at regular intervals.

Lithuania had even greater cause for apprehension with regard to Germany's intentions than had her neighbours, particularly in view of the changed relations between Poland and Germany. Moreover, the Memel dispute with the latter Power was now a source of far keener anxiety than even the Vilna controversy with Poland.[1] On April 25 the Lithuanian Government presented to Estonia and Latvia a Note proposing closer co-operation and solidarity with those Powers, on the lines of a defensive military alliance. The result was an invitation to Lithuania, on May 15, to adhere to the recently concluded Latvian-Estonian Defensive Alliance; it was clear, however, from a speech made in Warsaw by the Estonian Foreign Minister, during an official visit which was probably intended to reassure the Polish Government with regard to the pacific nature of the proposed alliance, that Estonia and Latvia had made their offer conditional on the understanding that they should in no circumstances be involved in any dispute either with Poland over Vilna, or with Germany over Memel. According to a dispatch in the *Völkischer Beobachter* of May 29, the Polish Foreign Minister, Colonel Beck, made a promise that Poland would be prepared to guarantee to respect the independence and territorial integrity of the Baltic States provided that the new pact was concluded in a form which she could approve.

A Treaty of Good Understanding and Co-operation[2] was finally initialed at Riga on August 29, signed at Geneva on September 12, and ratified at Riga on November 3, 1934. It was to come into force immediately for a period of ten years, after which it could either be denounced or tacitly prolonged. The three Governments undertook to confer together on questions of foreign policy of common concern, and to afford one another mutual, political, and diplomatic assistance in their international relations. In Article 3, however, the contracting parties, recognizing 'the existence of the specific problems [i.e. Memel and Vilna] which might make a concerted attitude with regard to them difficult', agreed to exclude such problems from the category of questions of 'common concern'. The conferences between the Estonian and Latvian Foreign Ministers provided for by the Treaty of Alliance of February 1934 were to be replaced by tripartite conferences meeting at least twice a year, while extraordinary sessions could be summoned at the request of one party,

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[1] See below, pp. 98–100.

[2] For text see *League of Nations Treaty Series*, vol. cliv, p. 93.

648 with the approval of the others. The three Governments were to instruct their diplomatic and consular representatives abroad, and their delegates to international conferences, to establish appropriate contact. It was agreed that all disputes between the signatories should be settled amicably, that mutual agreements for attaining this end should be negotiated, that the texts of treaties concluded between any one party and a third State should be communicated immediately to the other parties, and, finally, that the Treaty should be open for accession by other States, with the consent of the contracting parties.

The first Baltic Conference under the new dispensation met at Tallinn on December 2, 1934. Besides discussing the proposed Eastern European Pact, the three Powers decided to have a single diplomatic representative at Geneva and at all international conferences, to elaborate a scheme for settling all disputes among themselves, and to issue common instructions to their diplomatic and consular representatives abroad with a view to co-ordinating their activities. A *communiqué* was also issued confirming the favourable attitude of the three Powers towards the project for an Eastern European Pact of Mutual Assistance, and their agreement to consider it as a question of common importance. In January 1935 a Bureau for the Promotion of Co-operation between Estonia, Latvia, and Lithuania, which appears to have been formed by the amalgamation of the various existing inter-State organizations for cultural *rapprochement*, met for the first time at Riga and discussed proposals for establishing common Chambers of Commerce and Industry, and for co-ordinating educational policies in the three countries. Finally, Latvia's success in obtaining a non-permanent seat on the League Council, as the representative of the three Baltic States, in October 1936, set the seal on the policy of co-operation in the sphere of foreign affairs and implied recognition of the new *bloc*.

Principal Developments, 1936–8. Throughout the maze of negotiations for an Eastern Locarno in 1934–5, one fact stood out clearly. Faced with the alternatives of risking Germany's resentment by concluding a regional pact of mutual assistance in which the U.S.S.R. was, but Germany was not, included, or of abandoning the project, the Baltic States definitely chose the latter course. Baltic diplomacy appears now to be confronted with a choice between three possible lines of action. The three States may place their trust in their ability to remain neutral, and in the development of closer co-operation among themselves on the basis of the Pact of Baltic Union; they may follow Poland's example of *rapprochement* with Germany; or they may engage in an alliance with the U.S.S.R. In spite of the growing sense of insecurity, intensified by the failure of the League of Nations to prevent the Italian conquest of Abyssinia, as well as by the Anglo-German Naval Agreement of June 1935—which was regarded in some quarters as virtually handing over control of the Baltic Sea to the German Navy—the Baltic States have not yet been faced with the necessity of making a definite choice between the U.S.S.R. and Germany.

Finland is the one Power in the Baltic which can entertain any hope of being able to remain neutral in the event of a war between Germany and the U.S.S.R. She would have nothing to gain by joining an anti-German coalition; moreover, her orientation towards the Scandinavian States inclines her to a policy of neutrality. During 1936 relations between Finland and the U.S.S.R. became somewhat strained, partly as a result of the Antikainen trial and of various frontier incidents, partly owing to allegations—vigorously denied—that Finland was contemplating joining a German anti-Soviet *bloc*. Towards the end of the year, however, relations were somewhat improved. It was arranged that the Finnish Foreign Minister, M. Holsti, should pay an official visit to Moscow early in 1937; in a statement to *The Times* on January 21, 1937, he denied current rumours that Finland was involved in any political combination against the U.S.S.R. A *communiqué* issued by the Soviet Foreign Office at the close of his visit in February stated that it was felt that there was a 'good possibility of developing good-neighbour relations' between the two countries, and of useful collaboration in the direction of collective security.

There have also been signs of a *rapprochement* between Finland and the Baltic States. In May 1936 the Finnish Foreign Minister, M. Hackzell, visited Tallinn and Kaunas, and Riga, where he made a speech welcoming the closer union of the three States as an indispensable condition of Finland's collaboration with them in the future. During 1937 the Latvian Foreign Minister, M. Munters, visited Finland in April, and M. Hackzell's successor, M. Holsti, paid official visits to Estonia in August and Latvia in October; while in September the Estonian President was entertained at Helsinki. A trade agreement, concluded between Estonia and Finland in the same month, was criticized in Latvia as according to Finland special facilities which undermined the Baltic Entente.

Of the three Baltic States proper, Estonia and Latvia, in particular, appear likely to cling to the principle of complete neutrality as long as it seems at all feasible, but in 1936 they showed signs of wavering slightly towards closer relations with the U.S.S.R. At the end of April 1936 the Chiefs-of-Staff of Latvia, Estonia, and Lithuania paid a courtesy visit to Moscow as the guests of Marshal Jegorov. Almost immediately afterwards, however, the fourth Conference of

648 the Baltic Union met at Tallinn on May 7, and a *communiqué* was issued on the 9th in which the three Powers reaffirmed their fidelity to the principles of the League and their intention of supporting every proposal for the increase of its prestige. On the principle that peace is indivisible they demanded equal guarantees of security for all parts of Europe, and offered their collaboration in working out a general system of security, without rejecting the principle of regional agreements so long as these were kept within the framework of such a general system or of the League. At another conference in Riga on December 9–12 the Latvian Foreign Minister, M. Munters, delivered a pessimistic speech drawing attention to the general state of tension in Europe, and stating that, while the Baltic States had always preferred collective action in the sphere of international relations, they admitted that there might be other methods which would yield good results, although it would be a mistake to adopt them in a spirit of intransigence. The Conference reaffirmed its unshaken confidence in the League, and its complete unanimity with regard to the existing problems. The three Powers dispatched to the Secretary-General a statement of their views on the urgent necessities for League reform.

Until 1937 there were no marked signs of a further *rapprochement* between the Baltic States and the U.S.S.R., and, in fact, their friendly relations suffered a slight setback in consequence of a fiery attack on Fascism delivered by the new secretary of the Communist party in the U.S.S.R., M. Zdanov, at the All-Union Congress in Moscow at the end of November 1936, when he was reported to have said: 'We wish to live in peace with the Baltic countries, but if these tiny peoples allow big adventurers to use their territories for big adventures, we shall widen our little window on to Europe with the help of the Red Army.'[1] The resentment aroused by this ultimatum was hardly allayed by the assurance given on December 2 by the Soviet Minister in Riga that the speech reflected no aggressive intentions on the part of the U.S.S.R. towards the Baltic States. Shortly afterwards the Soviet Minister in Lithuania, M. Karski, speaking at Kaunas, warned the Baltic States that the U.S.S.R. was the only Power which could and would protect their independence and territorial integrity.

This mixture of threats and promises was followed up, in February 1937, by an official visit of Marshal Jegorov to the three Baltic capitals, ostensibly to return the courtesy visits to Moscow paid by the Baltic Chiefs-of-Staff in the spring of 1936. Moreover, on the occasion of M. Munters's courtesy visit to Moscow in the following June, M. Litvinov publicly stated that 'Latvia's geographical position is such that the U.S.S.R. cannot help being interested in the 648 maintenance of her complete independence'. In August a Soviet press delegation visited the three capitals.

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[1] See the *Daily Telegraph*, November 30, 1936.

Although the future policy of the three States cannot be predicted, 000 it is likely to be influenced by the consideration that, whereas the Soviet Union appears to be satisfied with its existing frontiers and as anxious as they are to preserve the territorial *status quo*, Nazi Germany has repeatedly avowed the necessity and desirability of eastward expansion, already so nearly—though not quite—achieved by Imperial Germany during the World War by the Treaty of Brest Litovsk.[1]

Meanwhile, Germany herself has been pursuing, during the last 648 few years, a policy somewhat similar to that of the Soviet Union after the War. While, on the one hand, the Government declares its desire for friendly relations with the Baltic States, and has, in fact, since 1936, actually modified considerably its attitude towards Lithuania, the Nazi party, on the other hand, is actively engaged in the organization of subversive movements within the frontiers of the three States.

In January 1936 the German Foreign Minister, Baron von Neurath, stated, in an interview with the *Niederdeutscher Beobachter*, that Germany was anxious to establish good relations with the Baltic States, but that, although economic relations were improving—and here he instanced recently concluded trade agreements with Estonia and Latvia—political relations must always be predominantly influenced by the treatment accorded to the German minorities by their Governments. He went on to state that strict observance of the Memel Statute was an essential condition of a return to normal relations with Lithuania; referring to the recent law in Latvia liquidating the German guilds,[2] he observed that, while Germany sympathized with the efforts towards national consolidation which were being made by the Latvian Government, she objected to their being conducted at the expense of the German minority. Finally, Baron von Neurath denied that the attempted *putsch* of the Liberators in Tallinn in 1935 had been inspired from Germany, and declared that German-Estonian relations were entirely satisfactory.

A different picture of the situation is presented, however, by a long 648 list of the plots laid bare, and illicit movements suppressed, in the 648 Baltic countries themselves during the last two years. To name only a few, Nazi organizations for spreading German propaganda in Latvia were discovered in January 1934, and again in April 1936, while in October 1934 the Latvian branch of the *Baltische Bruderschaft*, a society working for the assimilation of the Baltic countries

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[1] See above, p. 17.

[2] See above, p. 36.

668 with Germany, was suppressed. In Lithuania the Kaunas *putsch* of
648 June 1934 was commonly attributed to German inspiration, while in April 1936 several persons were arrested for smuggling across the Lithuanian-East Prussian frontier large quantities of anti-Lithuanian propaganda printed in Germany, inciting the Lithuanian peasants to refuse the payment of taxes. In Estonia a 'monster-trial' was held in August 1936 of 154 Estonian members of the Liberators' movement, charged with organizing a *putsch* under instructions from Germany. It is impossible to say how far German propaganda and financial assistance were really responsible for this and other similar movements, but there was undoubtedly some ground for complaint on the part of the Governments of the Baltic States.

648 The sudden change in Germany's policy towards Lithuania in 1936
439 seems the more startling in view of these barely disguised activities. On February 11 it was announced that, at the request of the Lithuanian Government, and in view of the fact that, since the recent elections in Memel, the Directorate and *Landtag* had been functioning in accordance with the terms of the Statute, the German Government was now willing to enter into negotiations for the resumption of normal trade relations. On August 5 a new trade treaty was finally concluded between the two countries, together with supplementary agreements regulating payments, border relations, and the labour rights of their respective nationals.

648 Shortly after the initiation of the German-Lithuanian trade negotiations in February 1936, Herr Hitler, in a Memorandum handed to the Locarno Powers on March 7 on the occasion of the German military reoccupation of the Rhineland, and again in a Note of March 31, had renewed his earlier offer to conclude bilateral pacts of non-aggression with the States on Germany's north-eastern and south-eastern frontiers, and had added (in the Memorandum) that, since the Lithuanian Government had to some extent corrected its attitude with regard to Memel, he no longer excluded Lithuania from this offer. The French Government pointed out, in its reply of April 8, that Germany had refused to admit that such pacts could be included in a system of collective security, or that they could be accompanied by guarantees of mutual assistance, and emphasized that France 'could not conceive of a settlement of western security for which she would have to disinterest herself in the security of the rest of Europe'. The British *questionnaire*, handed to the German Foreign Minister on May 7, included an inquiry as to whether the German Government suggested that the proposed pacts should follow the general outline of such pacts given to Sir John Simon by Baron von Neurath on March 26, 1935, and whether it agreed that they might also be guaranteed by mutual assistance arrangements; the

British Government also expressed the hope that the German Government could see its way to interpreting the words 'Germany's south-eastern and north-eastern frontiers' so as to cover also at least the Soviet Union, Latvia, and Estonia, as well as the States actually contiguous to Germany. The German Government vouchsafed no reply to the British *questionnaire*. 648

In January 1937 there were symptoms of a recrudescence of hostility when the German press published allegations that the Lithuanian Government contemplated the reorganization of the Army under the supervision of Soviet officers, and that there was talk in Kaunas of large deliveries of arms from the U.S.S.R.

While Lithuania's relations with Germany on the whole improved, the same could not be said of her relations with Poland; and indeed, they were a matter of concern not only to the latter, who in 1936 showed a desire for reconciliation—albeit on her own terms—but also to the Latvian[1] and Estonian Governments, who realized that until the Vilna dispute had been liquidated the relations of the Baltic States with Poland could not be as close as they would like. How the Polish Government, in March 1938, finally took matters into their own hands, and forced the issue by presenting Lithuania with an ultimatum, backed by the concentration of troops on the frontier, is related in the following chapter.[2] It may be suggested here, however, that once the Vilna controversy has been settled, Poland's scheme for a neutral *bloc* stretching from the Baltic to the Black Sea may be nearer to realization than at any time since the World War.

VI. SPECIAL PROBLEMS OF LITHUANIA'S FOREIGN POLICY

1. VILNA

UP to the Treaty of Union of Lublin in 1569, Vilna had been the 648
capital of the Lithuanian Kingdom; by the time of the partitions of 361
Poland and the Russian annexation of Lithuania at the end of the [171]
eighteenth century, however, it had become a centre of Polish, rather than of Lithuanian, culture. In 1918 the new Polish and Lithuanian States both laid claim to possession of the city and of the district surrounding it.[3]

When the Germans evacuated Lithuania at the end of 1918, Vilna was proclaimed the capital of the new Republic and renamed Vilnius.

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[1] At the end of March 1936 the Latvian Foreign Minister visited Warsaw to discuss Polish-Lithuanian relations.

[2] See below, pp. 92–3.

[3] The ethnographical bases of the rival claims are somewhat confused. The Lithuanians claim that the only reliable census was that of 1861, which showed a proportion of 74·3 per cent. Lithuanian- to 16·2 per cent. Polish-speaking inhabitants of the relevant parts of the 162

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363 In January 1919, however, the Lithuanian Government had to retire to Kaunas before the Bolshevik invaders; and when these in their turn retreated before the combined attacks of Lithuanian and Polish forces, it was the Poles who entered Vilna first on April 20, and who remained in possession until the second Bolshevik offensive in the summer of 1920. On July 12, 1920, Lithuania concluded a treaty of peace with Soviet Russia at Moscow, in which the province and city of Vilna were ceded to her by Russia; three days later the Red troops drove the Poles out of the city, and, on their evacuation during the Polish counter-offensive in August, they handed it over to the Lithuanians.

Tension between the latter and the Poles now became acute; fighting broke out in the Suvalki district, and on September 5 Poland appealed to the League of Nations. At the instance of the Supreme Allied Council the two countries agreed to accept a provisional frontier, known as the 'Curzon Line', giving the Suvalki sector to the Poles and the Vilna district to Lithuania; and an armistice convention to this effect was signed at Suvalki on October 7. But on the previous day an ostensibly unauthorized[1] Polish force under General Zeligowski entered the town. The General proclaimed a free and independent 'Republic of Central Lithuania', and constituted a Government consisting of two Poles, two White Russians, and two Lithuanians. On October 12 Poland concluded a preliminary peace with the R.S.F.S.R. at Riga, the first Article of which defined the Soviet-Polish frontier and stipulated that the allocation of the territories situated to the east of it under dispute between Poland and Lithuania should be exclusively settled by those two countries themselves.

The Zeligowski *coup* was followed by long-drawn-out and fruitless negotiations, first before the League Council, then in Brussels under the presidency of the Belgian Foreign Minister, M. Hymans, and finally at Geneva again. Various suggestions, e.g. the conduct of a plebiscite, the constitution of a federal State on the Swiss principle,

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162 Vilna Government. The Poles state that the proportion of Polish inhabitants has steadily increased since 1905, the figures for the whole province of Vilna being as follows:

Census of 1897:	17 per cent. Lithuanians,	9 per cent. Poles.
„ 1909:	13 „ „	16 „ „
„ 1916:	10 „ „	30 „ „
„ 1919:	10 „ „	62 „ „

The censuses conducted during the German and Polish occupations cannot, however, be taken as reliable, especially as adherence to the Catholic faith was often taken as a proof of Polish nationality. It seems clear that the Poles have a considerable numerical superiority over the Lithuanians in the city of Vilna, while the reverse is the case in most of the country districts. Actually, the prevailing elements are the Jews in the city, and the White Russians outside it.

[1] Later, however, General Pilsudski admitted—and gloried in—his responsibility for this act.

and so forth, were rejected.[1] Finally, in January 1922, the Council, 648 despairing of a settlement, gave up the case and withdrew its commissioners 361 from the territory, thus, virtually leaving events to take their own course. A year later the Poles, rightly judging that every one was weary of the controversy, appealed to the Conference of Ambassadors, in February 1923, for official recognition of their possession of Vilna. On March 15, acting in virtue of Article 87 of the Treaty of Versailles,[2] the Conference finally disposed of the matter by laying down the Polish-Lithuanian frontier in such a way as to recognize the *status quo*.[3]

As between Poland and Lithuania, however, the quarrel was by no means settled. Indeed, up till March 1938, a state of virtual blockade existed on the frontier,[4] nor were diplomatic relations between the two countries ever resumed until that date. Lithuania refused to accept the Ambassadors' decision, but her request in June 1924 for a fresh conference was rejected. The chances of a settlement were not improved either by the Vatican's recognition of Vilna as a Polish diocese in 1925, or by the conclusion in 1926 of a Soviet-Lithuanian Pact of Non-aggression in which the U.S.S.R. reaffirmed its recognition of the Lithuanian claim to Vilna.[5] Under the dictatorships established in 1926 by Marshal Pilsudski in Poland and M. Voldemaras in Lithuania, mutual hostility was stimulated—in Lithuania's case deliberately—in spite of the League Council's efforts at reconciliation in December 1927 and again in September 1928.

After the downfall of M. Voldemaras in 1929, a certain *détente* was

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[1] The Poles, however, conducted a plebiscite of their own on January 8, 1922, in the form of elections to a Diet which subsequently voted for union with Poland. The majority of the Lithuanian population in the country districts, and of the Jews in the city of Vilna, abstained from voting, and only Polish deputies were returned. The report of the League's Military Commission of Control pointed out that 'the control of the elections was entirely in the hands of the interested party', and that they were carried out under military occupation.

[2] Article 87 provided that 'the boundaries of Poland not laid down in the present Treaty will be subsequently determined by the Principal Allied and Associated Powers'.

[3] Moreover, on February 1, 1923, the Council of the League had accepted a Polish proposal 563 that questions concerning non-Polish inhabitants of the Vilna district should henceforth be subject to the normal minorities procedure; thus, instead of being placed automatically on the Council's agenda, they were to be dealt with by a Committee of Three. This procedure was accepted by Lithuania in the minority dispute submitted to the League in October 1927.

[4] In 1925 an agreement was reached on frontier and river traffic and on postal communications, and in 1926 the Niemen was declared open to rafting; but, in fact, the frontier remained closed, since the two Powers were unable to agree as to the conditions on which it should be reopened—the Polish Government insisting on, and the Lithuanian Government refusing, the simultaneous renewal of diplomatic relations. Lithuania also persistently refused to concede consular relations to Poland, or to make a railway agreement. In 1930 the Permanent Court at The Hague gave a decision in her favour on the question as to whether she was bound to open the Landswarow–Kaišiordoys railway for traffic.

[5] See above, pp. 71-2.

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noticeable, especially when the Vilna dispute became gradually overshadowed by Lithuania's quarrel with Germany over Memel. Neither an exchange of official visits in 1934, however, nor the overtures for the resumption of diplomatic relations made by Poland towards the end of 1936 and early in 1937, resulted in any amelioration of the situation, the Lithuanian Government not being prepared to consider more than the opening of the frontier. On February 5, 1937, Colonel Beck told the Polish *Seym* that, since no satisfactory response had been received from the Lithuanian Government, Poland was now 'compelled to withdraw its faith in Lithuania's peaceful intentions and, in future, to adjust its Lithuanian policy in accordance with the methods applied by Lithuania in its attitude towards Poland'. None the less, on March 7, the Polish Foreign Office issued a *communiqué* to the effect that Poland was ready at any time to proceed with the task of normalizing her relations with Lithuania, unconditionally and on the basis of mutual recognition of sovereignty, territorial integrity, and non-aggression.

In the meantime, there had been increased tension in January, when the Polish authorities dissolved a Lithuanian cultural association in Vilna, suppressed a Lithuanian daily paper, and arrested several leading Lithuanians on charges of infringement of the currency laws. Frontier incidents occurred in January, and again in December 1937, when Polish soldiers were alleged, in each case, to have moved a frontier post a few yards into Lithuanian territory. In February 1938, demonstrations against the suppression of another Lithuanian paper, and the arrest of its editor, led to the placing of a ban on the activities of the Nationalist party, and to the internment of three of its leaders.

Finally, a crisis was precipitated on March 11, 1938, by a clash between Lithuanian and Polish frontier guards, in which one Polish guard was killed. On the 13th the Polish Government issued a statement accusing the Lithuanians of provocation, and threatening to take measures befitting the seriousness of the situation. The concentration of troops was reported on both sides of the frontier, while anti-Lithuanian demonstrations occurred in the Polish Senate and in the streets of Warsaw. A proposal of the Lithuanian Government that the incident should be investigated locally by a mixed commission was rejected by the Polish Government as unacceptable, and on March 17—significantly, perhaps, at a time when international relationships had just sustained the shock of the German annexation of Austria—Poland presented a forty-eight-hour ultimatum demanding the unconditional establishment of regular diplomatic relations by March 31; and stipulating that there must be no discussion of these proposals.

The Estonian and Latvian Governments appear to have informed Lithuania that they regarded the establishment of normal diplomatic relations with Poland as highly desirable; while the French and British diplomatic representatives in both capitals used their influence to urge an amicable settlement. On March 19 the Lithuanian Government accepted without reserve all the Polish propositions, and received a reply on the 20th in which the Polish Government assured the new Lithuanian Legation in Warsaw 'all conditions of normal activity'. 648 361

Negotiations between the two countries were begun almost immediately, and proceeded so successfully that by the beginning of June three conventions had been concluded for the opening of postal and railway communications, and of river navigation, while further agreements relating to aerial communications and to a commercial treaty were under negotiation.

Although the Vilna dispute has reference to an area of inconsiderable economic importance, it has had far-reaching effects both on the domestic history of Lithuania and on the relations of the Baltic States with one another and with the Soviet Union. These have been described above, and it must suffice here to recall that the efforts to achieve Baltic solidarity, in relation first to Soviet Russia and later to Nazi Germany, have always been complicated by the enduring hostility between Lithuania and Poland.

2. MEMEL (KLAIPEDA)

Introductory. The Memel Territory, consisting of the port of Memel and a strip of land about 70 miles long and from 10 to 20 miles broad, is bounded on the south by the East Prussian frontier and on the north-east by what used to be the pre-War Russo-German frontier but is now Lithuanian territory. It controls the right bank of the Niemen (Nemunas), a waterway of great importance for the floating of timber down to the Baltic from the hinterland, and embraces nearly three-quarters of the seaboard between the East Prussian and Latvian frontiers; without it, Lithuania would have no port on the Baltic Sea. 131

The city of Memel was founded in 1252 by the German Order of the Sword, from whom it was taken over in 1328 by the Teutonic Order, as a centre for the conquest and conversion of the Borussians; on the dissolution of the Teutonic Order in the sixteenth century, the city and surrounding territory passed into the hands of the Hohenzollerns. By the fifteenth century the indigenous population had been virtually exterminated, but Lithuanian immigration was encouraged by the German rulers until the eighteenth century, when a policy of German colonization was first adopted. Even then the 361 [167]

361 Lithuanian population was allowed complete cultural liberty until
after the Franco-Prussian War of 1870; nor was the campaign then
initiated for the Germanization of the district ever carried to such
extreme lengths as to alienate the loyalty of the Lithuanians to the
[162] Crown. In 1918 the population of the city[1] itself was almost entirely
German, while the bulk of the inhabitants in the country districts
were of Germanized Lithuanian-speaking stock, although a certain
number were bilingual.[1] The majority had adopted the Protestant
faith of their German rulers.

361 Memel's prosperity, under the German Empire, was based on the
438 timber trade and its dependent industries; a considerable amount of flax, grain, and other agricultural produce was also exported, and, largely owing to German enterprise, iron foundries, shipbuilding yards, breweries, and chemical factories had been set up.

648 *The Post-War Settlement.* At the Peace Conference in Paris there
361 was some discussion of a French proposal to constitute a Greater Poland, which should include the whole of Lithuania as well as an outlet to the sea at Memel. Eventually, however, it was decided to detach the Memel district from Germany with a view to handing it over to the new Lithuanian Republic, if and when that country should have received *de jure* recognition. In spite of German protests,[2] therefore, a clause was inserted in the Treaty of Versailles (Article 99) to the effect that Germany renounced all right to the territory in favour of the Allied Powers, and undertook to accept the settlement made in regard to it 'particularly in so far as concerns the nationality of the inhabitants'.

Even after the *de jure* recognition of Lithuania by the Allied Powers, which was delayed, owing to the Vilna dispute, until November 1922, the future of Memel remained undecided. In the meantime, the administration of the territory had been taken over on behalf of the Allies by Général Odry, who was later replaced by a French High Commissioner, M. Petisné.[3] Alarmed by a French

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191 TABLE 11. *Population of the Memel Territory.*

Date of census	*German-speaking*	*Lithuanian-speaking*	*Bilingual*	*Memel-landers*	*Others*	*Total*
1910	71,191	67,345	1,970	..	260	140,766
1925	61,671	39,106	..	35,690	5,373	141,840

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[2] In a Note of May 29, 1919, Germany contested that the inhabitants were predominantly German—the city of Memel, in particular, being a purely German town—and had never desired such a separation; moreover, they offered to establish a free zone in the harbour of Memel, in which Poland, as well as Lithuania, should be accorded liberal privileges. The Allied Powers replied that the district as a whole was predominantly Lithuanian in origin and speech, and that the port of Memel was the only sea outlet for Lithuania.

[3] A Committee of Seven, which had been appointed by a preliminary Parliament (elected

1. [i.e. Memel -- Analyst]

proposal for the constitution of Memel as a Free City on the model 648 of Danzig, the Lithuanian Government finally decided to follow 361 the example of the successful Polish *coup* in Vilna in 1920. A rising, organized by bands of Lithuanians who had crossed the frontier on January 10, 1923, was followed by an invasion of Lithuanian troops, on the very day when French troops were marching into the Ruhr. The French garrison was forced to give way on the 15th, a local Diet was summoned which voted the union of the Territory with Lithuania, subject to a mild degree of autonomy, and a Provisional Government was set up.

A special Inter-Allied Commission, dispatched to investigate the situation, virtually acquiesced in this *fait accompli*, withdrew the French High Commissioner and troops, and appointed a new and more moderate, but none the less predominantly Lithuanian, government. After refusing to accept a convention drafted by the Conference of Ambassadors, chiefly because of a proposal to allow Poland a share in the management of the port, the Government in Kaunas consented on May 17, 1924, to sign a revised convention drafted by a Commission of the League of Nations under the chairmanship of Mr. Norman Davis.

By the Memel Convention of 1924,[1] which came into force on August 25, 1925, the Allied Powers (Great Britain, France, Italy, and Japan) transferred to Lithuania, subject to certain conditions, all the rights ceded to them by Germany over the Memel Territory, which was henceforth to constitute, under Lithuanian sovereignty, a unit enjoying autonomy within certain limits. The Statute appended 642 provides for the constitution of a Chamber of Representatives 361 elected for three years by citizens of the Territory, by universal, equal, direct, and secret suffrage,[2] and for the appointment of a Governor by the President of the Lithuanian Republic. The Governor must promulgate the laws voted by the Memel Diet unless he vetoes them as exceeding the competence of the Territory,[3] or as being incompatible with Lithuania's Constitution or international obligations. He must convoke the Diet at the request of one-third of its members, and may dissolve it in agreement with the Directorate,

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by the district assemblies) to carry on the administration in conjunction with a German High Commissioner during the Paris Conference, was retained as a Directory under the French administration.

[1] For text see British White Paper, Cmd. 2541.

[2] The Territory also sends deputies to the Lithuanian Diet, elected in accordance with the Lithuanian electoral law.

[3] Local affairs, including public worship, education, social welfare and labour legislation, organization of the judicial system, local taxation, &c., are within the competence of the Memel authorities. The police force is local, but is entitled to request the assistance of the Lithuanian police; the judiciary, which is also local but subject to the control of a special department of the Lithuanian Supreme Court, is appointed by the Directorate.

642 361 in which case elections must take place within six weeks. The administration is entrusted to a Directorate of five members, who must be citizens of the Territory; the President is appointed by the Governor, and himself appoints the other members, but the Directorate holds office only so long as it possesses the confidence of the Diet.

648 504 It is stipulated in an Annex that the Lithuanian Government shall conform to the provisions of the Treaty of Versailles concerning the Niemen; that the port of Memel shall be considered as a port of international concern, and subject to the recommendation adopted by the Barcelona Conference; and that the harbour shall be administered by a Harbour Board consisting of three members, appointed respectively by the Lithuanian Government, the Memel Territory, and the League's Communications and Transit Organization.[1]

648 361 It is important to note that the Memel Convention is not an instrument of the League of Nations, although members of the Council may draw the attention of the Council to any infraction of its provisions, and Lithuania undertakes to submit all disputes between her and the other signatories to the Permanent Court of International Justice, whose decision is binding. Moreover, apart from the recognition of German and Lithuanian on the same footing as official languages, the Minorities Declaration made by Lithuania respecting the rest of her territories applies to Memel also. Unlike Danzig, however, Memel is placed under the guarantee of the four Allied Powers signatory to the Convention, and not under that of the League.

642 361 578 *The Working of the Convention, 1925–32.* The Constitution thus imposed on Memel created an extremely difficult situation. It became clear after the first elections to the Diet, when twenty-seven Germans and only two Lithuanians were returned, that the great majority of the population was anti-Lithuanian in sympathy. Yet the Governor appointed by the Lithuanian Government was expected to choose a Directorate having the confidence of the Diet. If he did so, he was bound before very long to lose the confidence of the Government at Kaunas; if he did not, his rule was unconstitutional. The result was that events in Memel tended to repeat themselves in a more or less regular series. Elections were usually followed at first by a period of relative calm; then came a phase of conflict between the Diet and the Governor, accompanied by frequent changes of Directorate; this was terminated by the dissolution of the Diet, and a period of unconstitutional administration by the Governor; finally Germany would appeal to the League Council, and the Governor

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[1] The League nominee is to give special attention to international economic interests, but must not be a national of any riparian State of the Niemen; thus Lithuania gained her point in the dispute as to whether Poland should be represented on the Board.

would feel compelled to allow new elections. Between 1925 and 1933 642
this cycle recurred three times. 361

Between 1925 and 1927 three Directorates fell in quick succession 578
owing to no-confidence votes by the Diet, until, in February 1927, the Governor dissolved the Diet and carried on the administration by a Directorate of his own nomination. As a result of an appeal to the League Council by Germany,[1] new elections were held in August, when the German parties lost four seats to the Lithuanians.[2]

A peaceful phase followed the elections of 1927, owing to the fact 648
that M. Voldemaras' anti-Polish policy inclined him towards a 361
rapprochement with Germany; but, with the rise to power of his less
Germanophil successor, M. Sleževičius, in 1929, and with the intro- 642
duction of a high tariff on agricultural produce in Germany in 1930, tension increased again. During 1930 the Diet twice voted no-confidence in the Directorate, and in August it was dissolved by the Governor, Colonel Merkys. Complaints referring to the prolongation of martial law, which had been extended to Memel on its introduction in Lithuania in 1926, and to various alleged violations of the Constitution, were now addressed to the League Council by members of the Diet and by Germany. The latter, however, withdrew her petition after conversations between the German and Lithuanian Foreign Ministers.

Again, after the elections of October 1930, in which the Lithuanians won five out of the twenty-nine seats, there was a comparative lull,[3] owing to the appointment of Herr Böttcher, a German Memellander, as President of the Directorate. In December 1931, however, the Lithuanian Government accused Herr Böttcher of acting unconstitutionally in conducting negotiations with a foreign Power during a private visit to Berlin. In spite of receiving a vote of confidence from the Diet on his return, Herr Böttcher was arrested, and an entirely Lithuanian Directorate was appointed on February 6, 1932. Germany then brought the matter before the League Council, which adopted a report emphasizing the 'absolute necessity' of establishing without delay a Directorate enjoying the confidence of the Diet, but virtually transferred the responsibility for handling the dispute to the Allied Powers. When the Diet voted no-confidence in a new Directorate headed by a Lithuanian, M. Simaitis, the Government

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[1] For an account of the disputes between Germany and Lithuania over the question of procedure in petitions to the Council, see I. F. D. Morrow, *The Peace Settlement in the German-Polish Borderlands* (Oxford University Press, 1936), pp. 446–8.

[2] Probably owing to the emigration of thousands who opted for German nationality.

[3] In May 1931, however, Germany laid before the Council complaints over financial questions and over the continuance of martial law. The former were finally settled by a Financial Agreement signed on August 18, 1932; the latter was left to be handled by the Allied Powers, who in June 1931 addressed a joint Note to the Lithuanian Government recommending the abolition of martial law, without any result whatever.

642 dissolved it on March 22, in spite of a warning from the Allied
361 Powers. The Powers, therefore, instituted[1] proceedings against
648 Lithuania at the Hague Court on April 11. Judgement was not delivered until August 11,[1] when the Court decided that the Governor was entitled, for the protection of the interests of the Lithuanian State, and if no other action could be taken, to dismiss the President of the Directorate in case of serious acts which violated the Memel Convention, or which were calculated to prejudice the sovereignty of Lithuania; that such dismissal did not by itself involve the dismissal of the other members of the Directorate; that the dismissal of Herr Böttcher and the appointment of M. Simaitis were in order; but that the dissolution of the Diet was not in order.

Meanwhile the elections for the new Diet had taken place in May, and, in spite of German accusations that the Lithuanians had been guilty of shameless manipulation, the latter only succeeded in securing five seats. As usual the elections were followed by a peaceful interlude, in consequence of the appointment of a more liberal-minded Governor, M. Bylys, to succeed Colonel Merkys, and of a German President of the Directorate, Dr. Schreiber. In August a financial agreement was concluded between the Lithuanian Government and the Memel Territory.

648 *The Advent of National-Socialism.* The Schreiber Directorate's chances of stabilizing conditions were to a large extent destroyed by the accession of Herr Hitler to power in Germany in January 1933, and were still further diminished by the German-Polish *rapprochement* of 1934, up till when the common hostility of Germany and Lithuania to Poland had exercised a moderating influence on their mutual relations.

361 In the summer of 1933 two Nazi parties were founded in Memel;
668 the first, led by Pastor von Sass, with a Left Wing programme, was
661 called the *Christliche-Sozialistische Arbeitsgemeinschaft* (C.S.A.): the
648 second and more conservative, under Dr. Neumann, was known as the *Sovog* (*Sozialistische Volksorganisation*).[2] Alive to the danger of the movement, the Lithuanian Government in November 1933 appointed a new Governor, Dr. Novakas, to suppress it. Numerous foreign officials were dismissed—most of them citizens of the Reich; labour permits issued to foreigners in private employment were withdrawn; a law for the Defence of the State enacted on February 8, 1934, penalizing members of seditious organizations, was followed by the dissolution of both the Nazi parties and the arrest of Dr.

1. [1932 -- Anal., 1]

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[1] For text see *The Permanent Court of International Justice*, Series A/B, No. 49, p. 337.

[2] The Nazi party in Germany supported the *Sovog* in preference to the C.S.A., and appears to have attempted in July to unify the two parties by recognizing Dr. Neumann as leader of all the Nazis in Memel.

Neumann and other leaders of the *Sovog*. This action called forth 361
a German Note of protest, and the suspension of all local goods 648
traffic across the frontier.[1] 661
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In June Dr. Schreiber was dismissed on a charge of encouraging [648]
the Nazi movement, and was replaced at first by Dr. Reizgys, and later by M. Bruvelaitis, both of whom were Memellanders and appointed purely Lithuanian Directorates. The authorities now pursued the policy of reducing the Diet to impotence, firstly by disqualifying members of the Diet who belonged to 'seditious organisations',[2] and secondly by arranging that all the Lithuanian deputies should absent themselves, so that, on the rare occasions when the Diet met, a quorum was not present. In December the trial of 122 Nazis began in Kaunas, on charges of conspiracy for the reunion of Memel with Germany through armed revolt. Four prisoners were also accused of the murder of an official named Jesuttis, who was alleged to have betrayed Nazi plans to the Lithuanian authorities. Undeterred by indirect German pressure exerted through the reinforcement of troops on the frontier, or by representations made by the Guarantor Powers, the Court delivered heavy sentences in March 1935, including four death sentences on the murder charge.[3]

As a result of an appeal made by Herr Hitler during the visit of 648
Sir John Simon and Mr. Eden to Berlin in March, a joint Note was 361
addressed to Lithuania by Great Britain, France, and Italy on 666
April 19, 1935,[4] urging an early meeting of the Diet, and the constitution of a Directorate possessing its confidence; the Lithuanian reply was unsatisfactory, but, in the meantime, M. Novakas had been succeeded as Governor by the more moderate M. Kurkauskas, and the German parties had been invited to collaborate in the reconstitution of the Directorate. Shortly after their refusal to do so, the three-year term of the Diet expired, on May 4, and new elections were not held until September. In the meantime the electoral law was amended in such a way as to deprive several candidates (including Dr. Schreiber) of the now united front of pro-German parties, known as the *Einheitsliste*,[5] of their electoral rights and Lithuanian citizen-

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[1] Even the transit through Germany of goods destined for Lithuania was later prohibited.

[2] The non-Nazi, but German, *Landwirtschaftspartei* was now included in this category.

[3] These were later commuted to life imprisonment.

[4] In July 1934 the Powers had, in reply to a German Note complaining of the situation, adopted the line that complaints should be addressed to the League Council; and, although a committee of jurists appointed by the Council to consider two petitions presented by the Vice-President of the Diet in the following September had pronounced that infringements of the Statute had taken place, the matter had not been brought up for further discussion by the Council—owing, perhaps, to the pre-occupation of the Powers with the Saar Plebiscite.

[5] The *Einheitsliste* included all the German parties except the Social-Democrats, as well as a number of Lithuanians. It aimed ostensibly at the maintenance of the autonomous régime, but was supported by vigorous propaganda from the German Reich.

648 ship, and to disenfranchise a large number of voters. Influenced,
361 however, by Herr Hitler's bitter denunciations in the Reichstag on
666 September 15, and by a further *démarche* of the three Powers on the
12th, the Lithuanian Government at last agreed to make certain concessions with regard to the German parties and to the conduct of the elections, which were watched by the British *Chargé d'affaires* at Kaunas, and were on the whole fairly conducted. The net result of all these efforts was the election of twenty-four candidates of the *Einheitsliste* and five Lithuanians; thus the latter failed to gain a single seat.

642 The usual post-election period of appeasement ensued; for—after
361 the failure of two attempts to form a Directorate under a Lithuanian
648 President—M. Baldžius, a Lithuanian Memellander and a member
of the *Einheitsliste*, was appointed President.[1] The new Directorate, which received a vote of confidence from the Diet in December, repealed a number of anti-Nazi measures and began the reinstatement of officials who had been dismissed on political grounds. During 1936, moreover, there was a marked improvement in German-Lithuanian relations, beginning with a Lithuanian request for British mediation at the end of 1935, and continuing with a *rapprochement* initiated by Germany with startling suddenness in the spring of 1936;[2] and economic conditions in Memel were considerably benefited by a frontier traffic agreement concluded between the two countries in the following August. In October M. Kurkauskas resigned and was replaced by M. Kubilius, a Lithuanian lawyer who had hitherto
[666] played little part in political life.
Although there were fresh arrests and trials of Nazis during 1936–7, on the other hand a large number of amnesties were granted,[3] and in February 1937 the British Under-Secretary for Foreign Affairs was able to inform the House of Commons that 'the political position in the Memel territory is now generally satisfactory'.[4]

NOTE ON THE ECONOMIC POSITION OF MEMEL

361 The economic prosperity of the Memel Territory is now entirely
433 dependent upon that of Lithuania. This is primarily due to the fact

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[1] In January 1936 M. Baldžius was replaced by M. Diomons, also a member of the *Einheitsliste*.

[2] See above, p. 88.

[3] Most of the National-Socialists imprisoned have now been released, including Pastor von Sass (in 1937) and Dr. Neumann (in 1938).

423 [4] Unfortunately, however, a fresh occasion for agitation was provided by the Kaunas Government's law of September 6, 1937, expropriating, against compensation, some 440 hectares of territory belonging to 24 German landowners, for military purposes and harbour development. A violent campaign ensued in the German press; and on September 25 M. Baldžius informed the Memel Diet that the Directorate had protested to the Governor against the law on the ground that the expropriation of property was exclusively the concern of the Memel authorities, and had declined to co-operate in its execution. The German Government themselves (although, not being signatories of the Convention, they had no

that Memel is at present Lithuania's only practicable access to the 361
sea. Moreover, since 1923 a large number of important industries 433
have been established in and near the town with the object of supplying the Lithuanian hinterland; and thus a large proportion of Lithuania's industries are located in Memel. While these two cir- [313]
cumstances have undoubtedly led to a noteworthy increase in the economic importance of Memel since the War, Memel has suffered much, on the other hand, through the closing of the Polish-Lithuanian frontier since 1920; for, as the result, what was formerly her chief source of income, namely the handling of timber floated down the Niemen from Poland, has ceased to exist.

At present over three-quarters of Lithuania's exports by value, 459
and over two-thirds of her imports, are effected by sea through the 361
port of Memel. In addition, goods are imported through Memel in [505]
transit for Russia and sometimes Latvia, and the same is true of exports. Traffic through Memel (in net registered tons) is now more than three-quarters that of Tallinn. During the last few years the practice of importing or exporting through the Latvian port of Liepāja has somewhat decreased in favour of Memel.

To this the completion in 1932 of the Siauliai–Telsiai–Kretinga 497
railway has greatly contributed, since previously railway communica- 361
tion between Central Lithuania and Memel involved a long detour, either to the south, almost as far as Tilsit, or to the north through Latvian territory; and Liepāja was thus nearer to Kaunas than was Memel. The result of this increase can be seen from the following table:

TABLE 12. *Imports, Exports, and Shipping through Memel, 1932–7* 439
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	Exports from Memel by sea (mill. lits)	*Percentage of total Lithuanian exports*	*Imports into Memel by sea (mill. lits)*	*Percentage of total Lithuanian imports*	*Shipping entered through Memel ('000 net registered tons)*
1932	123·6	65·4	78·3	46·9	519·7
1933	106·6	66·6	79·0	55·6	600·7
1934	97·3	66·1	83·9	60·5	622·6
1935	118·2	77·6	80·0	62·2	691·3
1936	149·4	76·4	106·2	68·0	766·5
1937	157·0	75·3	145·0	68·0	844·7

Out of the 844,700 net registered tons of shipping entering Memel during 1937, 294,400 tons were German, 150,000 Swedish, and 145,800

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locus standi) protested at Kaunas, but were told that the law was valid under the Statute 423
and could not be altered, although guarantees could be given that it would not be used for other than its ostensible purpose.

439 505 361 tons British. The Niemen is navigable as far as the Lithuanian-Polish 'administrative line', and is used for cargo traffic as far as Kaunas.

361 504 475 The administration of the harbour is provided for in an annex to the Memel Statute of 1924, and is controlled by a board consisting of one member appointed by the Lithuanian Government, one by the Memel Directorate, and one by the League of Nations. Since 1924 noteworthy steps have been taken to improve the technical equipment of the port. The harbour has been extended and deepened, docks have been excavated, cranes have been installed, and [457] warehouses built, the cost, running into 'several tens of millions of lits',[1] being borne mainly by the Lithuanian Government. Some of the expenditure, however, has been met out of a loan issued by the city in 1927 amounting to 4,000,000 RM. nominal and offered in Germany.

361 438 As has already been mentioned, Memel is a comparatively important industrial centre. Of the 1,056 industrial enterprises in Lithuania employing 5 or more workmen at the beginning of 1937, 137 were in Memel, and of the 30,561 persons employed in such industries throughout Lithuania, 8,112 were employed in the Memel Territory. The more important industries include sawmills, veneer works, chemical fertilizer plants, and cellulose undertakings. There are also textile and tobacco factories of some size.

361 241 439 Outside the industrial district of the Territory the principal occupation is agriculture. It is impossible to give any indication as to the volume of production, since the figures are included with those of Lithuania proper. According to the available information, however, there is normally a small surplus of production for export; and since the easiest, if not the only, market is East Prussia, the agricultural population of the Territory suffered considerably from the virtual suspension of commercial intercourse between Lithuania and Germany owing to the dispute of 1932–5. The Agreement of August 1936 was consequently followed by an appreciable improvement.

361 651 [652] The Statute of 1924 gives the Administration powers to levy direct and indirect taxation inside the Territory with the exception of Customs and excise duties and certain monopolies. The Territory has a separate budget, which in 1934 balanced at about 14 million lits. The only funded debt outstanding is the loan of 1927 already mentioned.1 Owing to the harbour's international importance, there is a comparatively large number of commercial and other banks domiciled in the Territory.

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[1] *Lithuanian Telegraph Agency (Elta) Service*, March 1936.

1[see above, Line 12 -- Analyst]

B. ECONOMIC AND FINANCIAL

INTRODUCTION

THE three Baltic States cover an area of rather more than 65,000 square miles, and are thus slightly larger than England and Wales. The country is for the most part flat, and rarely rises much more than seven or eight hundred feet above sea-level, except in the so-called Lithuanian heights in the south-east of Lithuania. For the most part, also, the soil is of glacial origin, consisting partly of sand, mixtures of sand and clay, sometimes very fertile, and pure clay, which is often waterlogged. There are thus numerous marshes, heaths, bogs, and lakes. The three States lie roughly between latitudes 54° and 60° N., but the continental nature of the country renders the winters long and hard; there is a comparatively heavy snowfall, and even the large rivers such as the Nemunas (Niemen), the Daugava (Dvina), and the Lielupe (Aa) become frozen. Much of the country, especially where the soil is sandy, is covered with timber. Few mineral deposits except the shale of Estonia are yet of any commercial importance. 133

The total population of the three States is just over 5½ million.[1] 161
The density is greatest in Lithuania; that of Latvia and Estonia is 163
only just over half that of Lithuania. Lithuania, also, has by far the largest excess of births over deaths, though in all three countries the excess of births has tended to decline since the years immediately after the War. Lithuania, however, still has, after Poland, the highest birth-rate in Northern Europe. Yet in none of the three countries is there any great concentration of the population, and only three towns have a population of more than 100,000, namely the capital cities Riga (385,000), Tallinn (140,000), and Kaunas (105,000).[2] But 162
though there are few large towns, the proportion of the population 433
dependent on agriculture varies considerably. Of the persons gainfully occupied in Lithuania nearly 77 per cent. are engaged in agriculture, whereas the figure for Latvia is 66 per cent., and that for Estonia only 60 per cent.

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[1] For population and vital statistics see Appendix I.

[2] The population of the other principal towns according to the latest figures is as follows:

Tartu	59,000	Siauliai	24,000
Liepāja	57,000	Narva	24,000
Daugavpils	45,000	Panevezys	21,000
Memel	38,000	Pärnu	21,000
Jelgava	34,000	Ventspils	16,000

Cf. Great Yarmouth 56,769, Gravesend 35,490, Canterbury 24,450.

433 These differences are due largely to the effects of the Russian domination, which has profoundly influenced the productive structure of these States. Under the Russian Empire, it is true, the Provinces which are now Estonia, Latvia, and Lithuania were all primarily agricultural, and depended also to a great extent on the large reserves of timber which they each possessed. But it is important to emphasize that, whereas Lithuania depended entirely on timber and agriculture, this was not the case with Estonia or Latvia. [439] For, until the Russian Revolution, the economic importance of Riga, Reval, and Narva consisted in the large quantities of industrial products there manufactured from imported raw materials and supplied to the Russian Empire; and, though to a lesser extent, in their position as centres of the entrepôt trade between Russia and Western Europe. After 1918 their importance in this sense disappeared, and with it the means of paying for imports of raw materials—means formerly supplied out of the resources of a great Empire—which were needed if their industries were to continue to operate on anything like the old scale.

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433 Thus the problems which the three States had to face on the establishment of independence were serious. Estonia and Latvia, though equipped both by their natural position and by their extensive industrial apparatus to become important manufacturing centres, lacked both the capital and the markets necessary to bring such an aim within the realm of practical politics. Moreover, in all three countries the actual devastation caused by the War was very considerable, and the demands of reconstruction were great. In addition, there were numerous other difficulties which hindered the reorganization of the economic system. Of these may be mentioned the question of agrarian reform and the splitting up of the large estates, such as those of the Baltic Barons. A further serious problem was that of communications, for the railways, built in the time of the Russian Empire, bore little relation to the needs of the three national States. In this Lithuania was perhaps the most severely affected; and the lack of a port under her unrestricted sovereignty was a further handicap. Lithuania, again, was somewhat impeded in her work of economic reconstruction by the persistence of the Vilna dispute with Poland, her most important neighbour. Thus, though not faced with the peculiar industrial questions confronting Estonia and Latvia, Lithuania had special problems of her own which made her task fully as difficult.

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234 In the event, as will be seen, these problems were met by drastic solutions. Estonia and Latvia, at any rate until 1931, abandoned the hope of restoring their manufacturing industries to their pre-War position, and both countries were consequently forced to develop

727 other forms of production. Before the War Latvia, and to a smaller
234 extent Estonia also, had supplied St. Petersburg with butter and
433 other dairy produce. This trade, too, was lost after the Revolution,
[439] but the fact that it existed independently of foreign supplies suggested that dairy farming might be expanded so as to assume some of the importance formerly held in their economic systems by manufacturing industry. In this the development of the co-operative principle was of great assistance, and, during the period which ended in 1931, the two countries were able to make both ends meet by exploiting their forests and developing foreign markets for their butter and bacon, while their industries were still able to supply some of their own requirements of manufactured goods. Lithuania, though lacking manufacturing industries such as those possessed by the other two countries, followed a similar policy, and her success in finding foreign markets for her agricultural produce was the more remarkable in that the commercial organization of the country immediately after the War could not be compared with that of Estonia and Latvia. To sum up, then, the period 1918–31 described in the following section was one of reconstruction and of fundamental adjustment to the new conditions both inside and outside the Baltic. On the whole this process was highly successful, and it was no fault of the Baltic States that the conditions changed with the crisis of 1929–32.

Note: Except where otherwise stated, figures given in the tables are taken from the various statistical works published by the League of Nations, such as the Statistical Annuals, the annual memoranda on Foreign Trade and Balances of Payments, and the memoranda on Public Finance. Figures have occasionally been given in Swiss francs for comparative purposes. This is the old Swiss franc, the parity of which was 25·2215 to the £ gold, not the Swiss franc current since the devaluation of September 1936.

000 PART I: GENERAL FEATURES OF THE POST-WAR ECONOMY OF THE BALTIC STATES, 1919–30

I. THE PRODUCTIVE SYSTEM, 1919–30

BEFORE the growth of the productive system in this period is described, reference must be made to two developments: agrarian reform and the expansion of the co-operative system.

1. SPECIAL FEATURES

471 (i) *Agrarian Reform.*[1]

423 Although the growth of peasant ownership had proceeded rather more quickly in the Baltic Provinces than in the rest of Russia, a very large proportion of the land was still owned by a few large

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[1] For the political effects of this see above, pp. 29–30.

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holders immediately before the War. The large holders in Estonia and Latvia were chiefly the so-called Baltic Barons, the German landowning aristocracy, although in all these countries Russian landlords (usually absentee), and the Church, owned a considerable area. During the first few years after the War the large estates were nearly all split up into small-holdings, and the typical Baltic peasant is now the small-holder who works his own land.

Estonia. Of the total area in 1918 in Estonia 58 per cent. belonged to no more than 1,149 estates of an average size of 2,113 ha., rather more than half of which were leased to small-holders. This land was expropriated during the years 1919–26 and leased or granted to small-holders by the State, which, however, retained in its own possession that part of the land which consisted of forests. The result of these and other reforms was that, according to the agricultural census of 1929, the land was owned, or leased by the State, as follows:[1]

TABLE 13. *Number and Size of Holdings in Estonia*

Number of holdings	*Size of holding*
24,000	under 5 ha.
22,000	from 5–10 „
35,000	„ 10–20 „
24,000	„ 20–30 „
22,000	„ 30–50 „
6,000	„ 50–100 „
500	over 100 „

Latvia. Similarly in Latvia only 39 per cent. of the cultivated land was owned by small-holders in 1900, and even after the Lettish revolution of 1905[2] in Courland nine noble families owned one-fifth of the land in 1914.[3] The reform was effected in 1920. About five-sixths of the forests were declared State property. Of the remainder all the land except that belonging since 1915 to Latvian subjects, if in holdings of not more than 100 ha., was placed at the disposal of the State, though further exceptions were made of land belonging to charitable or scientific institutions, and the communes. The land thus appropriated by the State was then redistributed in lots of not more than 27 ha. each. In 1924 the Latvian Parliament decided not to grant compensation to the former landlords except in respect of certain debts arising out of mortgages. An appeal by the landowners to the League of Nations in 1925 was not considered, on the ground that the reform was of a social nature and did not affect the question

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[1] *Estonia: Population, Cultural and Economic Life*, edited by A. Pullerits, Tallinn, 1935, pp. 69–70; and Henri de Montfort, *Les Nouveaux États de la Baltique*, Paris, 1933, p. 125.

[2] De Montfort, op. cit., p. 118; and *Foreign Office Peace Handbook*, No. 50.

[3] *Foreign Office Peace Handbook*, No. 50, p. 56; and Alfreds Bilmanis, *Latvia in the Making, 1918–28*, Riga, 1928.

Latvia
Lithuania

of minorities. The result of these reforms is that the land is distributed somewhat as follows:[1] 471 423

TABLE 14. *Number and Size of Holdings in Latvia*

Number of holdings	*Size of holding*
100,000	under 10 ha.
51,000	from 10–20 „
24,000	„ 20–30 „
21,000	„ 30–50 „
18,000	„ 50–100 „
2,000	over 100 „

Lithuania. Land reform in Lithuania had been an issue as far back as 1905, for the large owners were chiefly absentee Russians and there were few of the 'improving' Baltic Barons. The question was thus more acute than in the other Provinces. Some progress was made before the War, however, and it is calculated[2] that in 1914 about 50 per cent. of the total cultivated area was in the hands of small-holders, but chiefly in plots which were uneconomically small. The most important legislation was enacted between 1919 and 1922. Forest land, if in plots of more than 25 ha., was declared State property. Other land formerly belonging to the Russian State, the nobility, the Church, and other estates of more than 80 ha. were also declared State property and allotted in small portions to the landless, who paid a nominal price in kind or money. Compensation to the former owners was allowed in most cases, but the currency in which the payments were expressed, viz. the Ostmark, depreciated so soon and so rapidly that the real value received was usually negligible. Some of the Polish landowners who had been dispossessed appealed to the League of Nations in 1925, but only to obtain a ruling similar to that given in the case of Latvia. The consequence of the redistribution—which is still to some extent in progress—can be seen from the figures of the census of 1931:[3]

TABLE 15. *Number and Size of Holdings in Lithuania*

Number of holdings	*Size of holding*
132,000	under 10 ha.
93,000	from 10–20 „
34,000	„ 20–30 „
21,000	„ 30–50 „
6,000	„ 50–100 „
1,000	over 100 „

(ii) *The Co-operative System.*

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The result of these reforms was at first a considerable dislocation of the productive system and a decrease of efficiency. This was

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[1] De Montfort, op. cit., pp. 113–14.

[3] Ibid., p. 114.

[2] Department of Overseas Trade: *Economic Conditions in Lithuania during 1931*, publ. 1932, p. 13.

423 particularly noticeable where the larger estates of the Baltic Barons
433 had been split up—chiefly in Estonia and Latvia. Here, for example, farm buildings were often separated by the redistribution from the land which they had formerly served. Moreover, an entirely new class of landowners was called into being. These new small-holders were often ignorant of scientific agricultural methods, and were nearly always without means. It can therefore be seen that a whole series of problems was created by the reforms, which, throughout the period, it was the chief objective of agricultural policy to solve. The solution was found largely in the extension of the co-operative system.

474 Before the War there were numerous agricultural societies in existence in Estonia, Courland, and Livonia, and to a smaller extent in Lithuania. The idea, therefore, was not new. What was new was the notion that the pre-War agricultural associations could be developed to the point where they became the central pivot of the
[234] entire agricultural organization. The pre-War functions of these societies had been to organize savings banks, to purchase machinery for the use of members, to promote the use of artificial fertilizers, to pay for instructors, and not least to deal on the co-operative system in dairy produce. The last-named activity was, of course, essentially suited to the new conditions after the War, which had created a large number of small-holders, and it is in this direction that the development of the co-operative system was most remarkable.

474 *Estonia.* Co-operation developed in Estonia less during this period,
234 perhaps, than in the other two countries, except as regards dairy
439 farming. However, co-operative dairies increased from 60 in 1918 to 331 in 1929, and the two co-operative marketing associations soon succeeded in obtaining a market for Estonian butter abroad. Much encouragement was given by the Government, particularly as regards grading; and, by the end of the period, between 60 and 70 per cent. of Estonia's exports of butter was in the hands of these two societies. There was also a considerable extension of co-operative buying abroad,[1] mainly of agricultural machinery resold by the retail societies, while the number of societies which were formed to enable members to obtain the use of agricultural machinery increased from 28 in 1914 to about 800 in 1929. In addition, the co-operative system greatly aided the production and export of bacon, eggs, and potatoes. On the whole, however, Estonia left development rather more to the State and to individual enterprise than did Latvia or Lithuania.

000 *Latvia.* As in Estonia, the co-operative system of Latvia had been

[1] Through the Estonian Co-operative Wholesale Society, known as the E.T.K.

1: Anonymous U-4 (no date)1938 RB1 Baltic States 761
Latvia.
Lithuania

Latvia. As in Estonia, the co-operative system of Latvia had been 474
somewhat highly developed before the War. However, the disorganization caused by the War and the inflation made a fresh start necessary. There was a rapid increase of consumers' co-operatives in 1920 and 1921, followed rather later by a similar increase in co-operative credit societies and co-operative dairies. On the whole, development was rather uneven, owing to the enormous demand for agricultural machinery, seed, and plant resulting from the devastation of the War; but a large group was soon evolved which was known as *Konsums*. This group lent money on the security of land, supplied farmers on credit with agricultural and dairy machinery and artificial manure, and was at one period commissioned by the Government to buy grain and flax for export purposes. [234] Apart from the expansion of *Konsums* during these years the most notable feature was the growth of co-operative dairies, which by the end of the period numbered more than 400, with a total membership of more than 20,000.

Lithuania. The growth of co-operation in Lithuania was rather 474 greater, and the field covered rather wider, than in the other two 439 countries. This may perhaps be explained by the almost entire absence of any financial organization in Lithuania immediately after the War, which was not the case in the other countries. The growth of co-operation was very rapid, and by the end of 1927 there were no less than 2,089 co-operatives in existence, 640 of which were consumers' societies, 473 dairy co-operatives, and 587 credit co-operatives. The export of Lithuanian butter on the scale achieved during this period would probably never have become possible without the assistance of the *Pienocentras* co-operative organization. The same may be said of the export of bacon and live stock which was effected through *Maistas*, an organization controlled by the agricultural co-operatives' union (*Lietukis*) and the Farmers' Union, both agricultural co-operatives which, in addition to fostering pig-breeding, supply the farmers with fertilizers, seeds, and agricultural machinery.

2. AGRICULTURE

(i) *Cereals*.

The area under cereals was comparatively small except in Lithuania. 243
During 1926–30 the average annual percentage of the total area 311
under rye, oats, barley, wheat, and meslin was 10·5 for Estonia, 12·9 for Latvia, and 23·0 for Lithuania, but a proportionately larger area of Estonia and Latvia is covered by forest. However, both Estonia and Latvia were regularly compelled to import large quantities of grain during the period, chiefly rye, while Lithuania normally had a surplus for export.

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The chief developments during the period can be seen from the following table:

TABLE 16. *Agricultural Development*

	Area under crop annual average ('000 ha.)			*Production annual average ('000 quintals)*			*Yield per ha. annual average (quintals per ha.)*		
	1909–13	*1921–5*	*1926–30*	*1909–13*	*1921–5*	*1926–30*	*1909–13*	*1921–5*	*1926–30*
Rye									
Estonia .	169	159	142	1,852	1,639	1,594	11·0	10·3	12·1
Latvia. .	351*	252	254	3,254*	2,422	2,471	9·3*	9·6	9·7
Lithuania .	552*	557†	471	4,967*	5,948†	5,184	9·0*	10·7†	10·8
Oats									
Estonia .	135	155	144	1,234	1,380	1,273	9·2	8·9	8·6
Latvia. .	306*	300	297	2,790*	2,642	2,561	9·1*	8·8	8·0
Lithuania .	317*	332†	335	2,659*	3,318†	3,370	8·4*	10·0†	9·4
Barley									
Estonia .	132	123	114	1,346	1,190	1,139	10·2	9·7	9·9
Latvia. .	191*	167	176	1,728*	1,519	1,570	9·1*	9·1	8·8
Lithuania .	183*	187†	201	1,588*	2,150†	2,113	8·7*	11·5†	10·7
Wheat									
Estonia .	..	19	30	..	182	321	..	9·6	10·7
Latvia. .	33	36	61	384	388	731	11·6*	10·8	11·8
Lithuania .	82	90†	163	853†	1,019†	1,859	10·4*	11·3†	11·9

* Not including the whole territory. † 1922–5.

As in the pre-War period, rye and oats continued to be the chief crops. The principal developments after the War were firstly an increase in the acreage under wheat and in the gross production of that crop. This was largely because these countries had obtained their wheat before the War from the other provinces of Russia, and were now forced to grow their own. The other tendency to be noted is a general decline from the pre-War figures in the yield and production of rye, oats, and barley, except in Lithuania. The explanation lies in the dislocation caused by the redistribution of land, for the new methods introduced had hardly begun to affect production by 1930, and during this period the agricultural organization of Estonia and Latvia was in general less efficient than before the War, when the large landowners were in possession. Moreover, during the years 1926–30 there were several exceptionally bad harvests. In Lithuania, on the other hand, there was a remarkable growth of efficiency as compared with the pre-War period, when the land tended to be neglected by the big owners, and the small-holders were ignorant of modern methods.[1] There was thus a considerable increase in yield and production.

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[1] e.g. the rotation of crops was rarely practised before the War. See Dr. O. Lehnich, *Währung und Wirtschaft in Polen, Litauen, Lettland und Estland*, Berlin, 1923, p. 186.

(ii) *Other Crops.*

Potatoes are of twofold importance, for not only are they a staple article of diet in many cases, but they are also used for distilling vodka and other spirits, particularly in Estonia. Estonia's production during the period tended to fall off, however, as the Russian market for spirits was lost, though there was a notable rise in yield by the end of the period. In Latvia, and still more in Lithuania, there were considerable increases in gross production and yield. The figures are as follows: 244

TABLE 17. *Potato Production*

	Area under crop annual average ('000 ha.)			*Production annual average ('000 quintals)*			*Yield per ha. annual average (quintals per ha.)*		
	1909–13	*1921–5*	*1926–30*	*1909–13*	*1921–5*	*1926–30*	*1909–13*	*1921–5*	*1926–30*
Potatoes									
Estonia .	80	70	67	8,340	7,014	7,570	104·6	100·2	113·0
Latvia .	80*	72	85	6,385*	6,707	8,458	80·3*	93·2	99·2
Lithuania .	119*	156†	141	7,959*	17,170†	15,261	66·8*	110·1†	106·2

* Not including the whole territory.
† 1922–5.

Apart from fodder, flax, and other industrial crops, both of which are referred to below, the only other crops of importance during this period were peas, beans, and lentils, which were grown in all three countries. The growing of sugar-beet received much State encouragement in Latvia and Lithuania after 1931 and will be dealt with below.[1] Fruit-growing in the Baltic States is not extensive.

(iii) *Flax.*

Before the War and during the first few years that followed it, flax was one of the most important commodities exported from the Baltic States. Livonian flax, grown in territories which now belong partly to Latvia and partly to Estonia, is still one of the best standard grades, while some 12 per cent. of the world's flax was produced by these three countries in 1925. But, during this period, the Baltic States had to contend with numerous difficulties, of which the two most important were the increasing competition from Russia and the difficulty of cultivating on a large scale an industrial crop such as flax where the land had been divided into small-holdings. Except in Lithuania there was a steady decrease in the production and yield, as shown in Table 18 on p. 112. 248

The only other important industrial crops which were grown during

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[1] See below, pp. 147–8.

248 this period were hemp and linseed, small quantities of which were exported.

TABLE 18. *Flax Production*

	Area under crop annual average ('000 ha.)			*Production annual average ('000 quintals)*			*Yield per ha. annual average (quintals per ha.)*		
	1909–13	*1921–5*	*1926–30*	*1909–13*	*1921–5*	*1926–30*	*1909–13*	*1921–5*	*1926–30*
Flax									
Estonia .	42	30	34	169	101	95	4·0	3·4	2·8
Latvia* .	70	53†	61	302	213†	196	4·3	4·0†	3·3
Lithuania* .	55	61	86	242	312	339	4·4	5·1	4·0

* Latvia: flax and hemp 1909–13; Lithuania: flax and hemp throughout. † 1922–5.

3. DAIRY FARMING AND STOCK-BREEDING

231 The comparative position of these countries can be seen from the
234 following table:

TABLE 19. *Statistics of Live Stock*

(i) *Total number of live stock*
(In 000's)

	*Estonia**		*Latvia**		*Lithuania*	
	1913–14	*1930*	*1913*	*1930*	*1913*	*1930*
Cattle . .	478	627†	912	1,026	918	1,170
Pigs . . .	275	290	557	523	1,358	1,136
Horses . .	165	204	320	359	451	559
Sheep. . .	518	467	996	873	1,152	1,097‡

(ii) *Number of live stock slaughtered*
(In 000's)

	Estonia		*Latvia*		*Lithuania*	
	1923	*1930*	*1923*	*1930*	*1923*	*1930*
Cattle . .	75	63	118	102	not available	70
Calves . .	78	107	188	319		106
Sheep. . .	62	63	213	171		67
Pigs . . .	71	97	118	199		64

Note.—These figures relate to inspected slaughter-houses only.

* Estonia and Latvia: 1913 figures relate to a somewhat smaller area than that of the present States.

† Draught oxen only.

‡ Including goats.

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727 The increase between 1913 and 1930 may be smaller than the great development of dairy farming after the War might lead one to suppose, but the number of live stock was very considerably reduced by the War itself; and the dislocation of the years immediately following 1918 led also to the result that many of the beasts were extremely poor. During the latter part of the period the Baltic

States were only just beginning to recover from the effect of these 231
circumstances. 727

The Baltic States grow nearly all the fodder required for their 232
cattle themselves. This consists largely of hay and mixed crops 246
(meslin); as was seen, a large part of the total area of each country is pasture land. Roots were not often fed to cattle during the period. Great attention was paid to breeding by all three States, a subject which had not received much notice during the Russian period. In Latvia, for example, there were by 1928 over 500 associations formed for this purpose, and several hundred stud stations, most of which were assisted financially by Government departments, while imports of cattle for breeding purposes were a regular feature in the trade balance of all three countries.

There are comparatively few establishments exclusively devoted 234
to dairy farming except for certain farms run directly by the co- 474
operatives and the State. For the most part, the cattle are owned by individual peasants who deliver the milk to the co-operative dairies or bring their cattle to be milked. From this stage onwards dairy farming was developed during the period into a highly organized process, controlled largely, as was seen, by the co-operative system. This was not entirely a new thing in Estonia and Latvia, which before the War had supplied the Russian market, a substitute being found during this period in Great Britain. In Lithuania, however, it was an almost complete innovation.

The progress of dairy farming is illustrated by the following table:

TABLE 20. *Butter and Milk Production*

	Butter *Production in metric tons* *(000's omitted)* *(Creamery or factory butter only)*			*Milk* *Production in hectolitres* *(000's omitted)*		
	Estonia	*Latvia*	*Lithuania**	*Estonia*	*Latvia*	*Lithuania‡*
1925 . . .	7·2	7·9	0·3	4,823	†	92
1926 . . .	9·7	11·2	1·0	5,880	†	251
1927 . . .	10·9	12·0	1·3	6,118	†	312
1928 . . .	12·2	14·3	1·6	6,387	†	397
1929 . . .	13·7	17·0	3·1	6,334	12,650	725
1930 . . .	15·5	20·8	6·4	7,374	13,143	1,512

* Co-operative creameries only. † Figures not available.
‡ Milk delivered to dairies or factories.

A large proportion of the total production of butter is exported. 234
The exact figure is difficult to ascertain, since complete figures for pro- 439
duction are not always available. In Lithuania, during 1930, 6,000 metric tons of the butter manufactured by the dairies included in the above table, viz. 6,400 metric tons, were exported, the total export of

234 butter in that year being 7,400 metric tons. In 1930 Estonia exported
439 in all 14,100 metric tons, as compared with the figure given above for production in that year of 15,500 metric tons, while Latvia exported 18,400 metric tons as compared with a production figure
[231] of 20,800 metric tons. Much progress was made with pig-breeding in Estonia and Latvia during the period; and considerable quantities of bacon were exported, mainly to Great Britain. Lithuania entered the field as a bacon exporter rather later than the two other countries, but by the end of the period her export trade was
[235] beginning to be considerable.[1] Poultry-breeding also was carried on intensively in all three countries, particularly Lithuania, which exported large quantities of eggs and poultry to Germany and Great Britain.

4. TIMBER

137 The percentage of the total area covered by forests was as follows:

	Percentage	*State property as percentage of this*
Estonia (1929) .	20	88
Latvia (1928) .	29	85
Lithuania (1927) .	17	?

The species vary considerably: in Estonia softwoods prevail to the extent of about 63 per cent., followed by birch (19 per cent.), aspen (10 per cent.), alder and others (8 per cent.), while in Latvia 77 per cent. of the total forest area is covered by softwoods, the remainder being birch (15 per cent.), aspen (4 per cent.), alder (3 per cent.), and others (1 per cent.). The Lithuanian forests consist of softwoods (62 per cent.), aspen (13 per cent.), birch (11 per cent.), alder (4 per cent.), and others (10 per cent.).

313 The forests of all three States, especially Latvia and Lithuania,
722 suffered from the presence of hostile armies during the War, for large quantities of timber were felled as and when required, though it is true that this took place chiefly by the side of the roads and railways. After the War, too, the absence of agricultural buildings, and even of houses for the new small-holders, led to much abnormal felling of timber. In Lithuania, for example, a great deal of timber was sold
659 at nominal prices or even given away to new settlers. Since the immediate post-War period, however, the respective Forestry Departments have established a more rational control over the timber resources of the State and also of those which are privately owned, for in most cases the owners in the latter category are municipalities or other public bodies.

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[1] For the effects of this, see below, pp. 148-9.

Yet it is by no means certain that a desirable relation was established during this period between felling and fresh growth, and there is little doubt that the annual cut of timber was in general excessively large, at any rate in Latvia and Lithuania. In Lithuania, for example, it was admitted by an official publication[1] that over the entire area the annual growth of new timber was about 2·08 million cubic metres, but that the annual average volume of timber felled for 1927–30 was 2·57 million cubic metres,[2] although the Forestry Department annually allotted only 1·88 million cubic metres for felling. In Latvia, also, the Department of Overseas Trade Reports[3] indicate that the total annual cut has often exceeded the annual increase provided for. In general the extent to which systematic reafforestation took place during this period is very uncertain. 313 653

The method of exploitation does not vary greatly. Usually, as in Latvia, the Forestry Department sells the timber in certain forest districts by auction. Felling takes place in the winter months, labour being recruited from the peasants, who have comparatively little farm work to do at that time of year. The felled logs are then taken, generally by sleigh, to the riverside, where they are dumped until the early spring, when the thaw enables them to be floated down to the ports. To this extent the export of logs is a seasonal trade. The rivers of the Baltic States are quite indispensable to the timber trade, for the railway system by itself would be unable to cope with the transport of timber. In the early spring, rivers such as the Daugava,[4] the Gauga, and the Niemen are full of timber rafts. Estonia, however, has few rivers which can be used. 313

Finally, there are numerous sawmills in all three countries, and the large amount of softwoods has led to the growth of wood-pulp and cellulose industries. Apart from this there is also a growing ply-wood industry; and of the timber exported from these States a large proportion is in the form of semi-manufactures. It will be more convenient, however, to deal with this in the following section.[5]

5. INDUSTRY

A clear distinction must be drawn between Lithuania, where manufacturing industry before the War was inconsiderable, and Estonia and Latvia. In these two countries, as has already been 438

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[1] *Lithuanian Telegraph Agency (Elta) Service*, October 1930.

[2] Ibid., February 1932.

[3] e.g. D.O.T.: *Economic Conditions in Latvia, January 1935*, publ. 1935, p. 31.

[4] Timber from Poland and the U.S.S.R. also is floated down to Riga on the Daugava and its tributaries, and to a smaller extent on the Lielupe from Lithuania.

[5] It may be mentioned, before manufacturing industries are dealt with, that sea fishing is of some importance in both Estonia and Latvia, the Baltic herring being one of the chief species caught. Reference may also be made to the fact that comparatively large quantities of amber are found in Lithuanian territory, chiefly on the Kurisches Haff. On this subject see an interesting article in the *Lithuanian Telegraph Agency (Elta) Service*, September 1933.

438 mentioned, there had grown up an important series of manufacturing industries before the War. Some depended on local raw materials such as timber, but, in general, the pre-War industry of these territories took the form of the conversion of imported raw materials into finished articles, which were sold in Russia. The extent of these industries may be judged from the fact that in 1910 more persons were employed in the textile, chemical, and metal industries of Latvia than the entire number of those employed in all the industries [396] of the country in 1926. Moreover, Reval (Tallinn) was one of the most important shipbuilding bases of the Russian Empire, while at Krainholm there existed one of the largest cotton mills in the world.[1]

439 The War, and the establishment of independent States, changed 727 the whole position. The Russian market, the basis of the manu- 433 facturing industry, was lost. The indispensable raw materials could no longer be imported on the pre-War scale; and, as has been seen, the mineral resources of Estonia (except for oil-shale) and Latvia are negligible from the commercial point of view. Moreover, the War had brought devastation which in many cases it would have been impossibly expensive to repair even if markets had existed; in Latvia, which was perhaps most severely affected, the retreating Russians had carried off most of the machinery which could be moved, and many of the factories were no more than empty buildings. Finally, the demands of economic nationalism required that Lithuania should make some attempt to develop manufacturing industries of her own where none had existed before.

433 It is impossible to trace here the steps by which some kind of order was produced from the chaos of the years immediately after the War. In general, the policy of Estonia and Latvia was to develop only those industries which were essential to local requirements, or which could exist without the Russian market. Within this limited scope, a considerable measure of success was achieved during the period. [437] The State was occasionally able to make good the loss or destruction of machinery through foreign relief credits received immediately after the War, and when some degree of economic and political stability had been achieved in the Baltic, foreign capital—chiefly German and British—was made available to industry through the banking system. It was even possible to obtain a small footing in the export market, for the standard of living in Estonia and Latvia was comparatively low, and costs were often on a good competitive

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288 [1] The early development of the cotton industry in Estonia was largely due to a British-trained German, Julius Knoop (1811–94), who eventually came to dominate the entire textile industry of Russia. For further details, see L. H. Jenks, *The Migration of British Capital*, New York, 1927, pp. 183–4. A fuller account will be found in *Krainholm Manufaktur 1857–1932*, privately printed by the Gesellschaft der Krainholm Manufaktur für Baumwollfabrikate, 1933.

basis. After 1926 Latvia even made an attempt to regain for her 433
manufacturing industries some part of the Soviet market, but her
success was shortlived.

The relative importance of the various manufacturing industries 438
in Estonia and Latvia can be seen from the following table: 464

TABLE 21. *Number of Workmen Employed in Manufacturing Industries in 1926.**

Industry	*Estonia*	*Latvia*
Textile	8,919	5,935
Wood-working . . .	4,389	10,061
Metallurgical . . .	3,758	8,408
Paper and printing . .	3,349	5,132
Foodstuffs	1,916	8,543
Chemical	835	3,433
Other	2,683	8,160
Total . . .	25,849	49,672

* *Estonian Year Book* for 1929, p. 108; Bilmanis, op. cit., p. 67. The figures are not strictly comparable, for the Estonian figures relate only to firms employing more than 20, or 85 per cent. of the total; moreover, it is not known whether the designations exactly correspond. They do, however, form a rough basis for comparison.

The annual value of industrial production in these countries rose 433
to a considerable figure during the period; in 1926 it is estimated that the figure for Estonia's manufacturing industries was 98·8 million kr., or about 137 million Swiss francs, and that of Latvia as much as 311 million Swiss francs. Most, if not all, of the more important industries were located in Riga and Tallinn, with the exception of the Narva textile industry, and the shale-oil industry between Narva and Tallinn. No new industrial centres of any size were developed during these years, owing largely to the lack of capital and efficient communications. For the most part the size of the individual enterprises was small, and nearly all were dependent directly or indirectly upon the banking system for their finance, though in some cases the co-operative system and even the State were directly interested. Power was provided mainly by imported fuel, though peat was often used, and, in Estonia, shale-oil.[1]

Latvia. The timber industry was the most important branch of 313
manufacture during the period. The timber used was very largely of Latvian origin, though Russian timber was occasionally handled. The most important section consisted of sawmills, but there were also several veneer and boxboard factories. The industry worked very largely for export oversea. Closely connected with the timber industries were the paper and pulping branches, also the cellulose

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[1] However, the production of electricity in the principal plants of the five most important towns of Estonia increased from 8 to 22 million kwh. between 1923 and 1929.

3/3 industries. These latter had previously worked very largely for Russian consumers, and it was only towards the end of the period that it became possible to find substitutes abroad for the loss of this market.

325 Latvia's metallurgical industry, which also had worked almost
727 entirely for the Russian market, was perhaps more hardly hit than any other single industry in the Baltic States; for not only was this market no longer available, but in many cases plant had been destroyed or removed. To some extent it was possible to readapt the plant that remained for the manufacture of goods such as agricultural machinery (of which some was even exported to the U.S.S.R. under the Treaty of 1927[1]); but, in branches such as shipbuilding and the more elaborate types of engineering, it was obviously impossible, in the circumstances, to re-establish production on the pre-War basis. In this case Latvia, like Estonia, was compelled to face the fact that, for the most part, markets and means of purchasing raw materials had disappeared.

228 Similar difficulties were felt by the textile industry, which before the War had reached a high degree of efficiency; but, on the whole, adaptation to the new circumstances was more successful during the period. The industry, which is both absolutely and relatively smaller than that of Estonia, comprised cotton-spinning and weaving mills, some wool-weaving mills, and flax-spinning plant. Yet, though the capacity of the industry was probably large enough to supply the country's entire requirements, the high level of costs did not permit of this, and considerable imports of semi-manufactured and finished goods were required. Of the other more important industries, except for those connected with foodstuffs, may be mentioned the rubber industry, consisting largely of the manufacture of goloshes. Many of these products were exported to neighbouring countries. The cork and linoleum industry also attained some importance during the period.

Estonia. Much of what has been said of Latvia applies also to
[727] Estonia. Here the textile industry continued to be the most important branch. The difficulties already mentioned were met to some extent by the renovation and conversion of plant for processes, such as bleaching, dyeing, and printing, which had not been undertaken before the War. By these means it was possible, during the period, to obtain a footing in foreign markets, particularly in the Baltic countries, but also in more distant markets such as the Balkan States. Yet the total of persons employed in the two cotton mills in Estonia during 1925 was only 5,000, whereas before the War the Krainholm mill alone had employed 13,000. Much success was

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[1] See below, p. 127.

RBl

Estonia
Lithuania

obtained in the flax-spinning and weaving industries, which were able to export during this period. 288

The timber industries, which include sawmills and veneer and boxwood factories, are very similar to those of Latvia, and similar conditions apply; but during these years Estonia began to specialize in the production of plywood. In this, British capital is interested through Venesta Ltd. There is also an important match industry, and a comparatively large cellulose factory at Tallinn. The paper and pulp industry suffered considerably from the War, but had begun to recover by 1929. The metal and machinery industries of Tallinn suffered in the same way as those of Riga, though the depredation and devastation caused by the War was perhaps less severe. But, whereas before the War nearly 20,000 men were employed in the principal shipyards and engineering works of that centre, the difficulty of paying for raw materials and the loss of the Russian market brought plant almost to a standstill. Several factories were eventually adapted to produce goods for the home market, but during the period the industry as a whole was rarely working to more than about 20 per cent. of capacity. 313 325 727 396

Apart from the foodstuffs industry the only other industry of importance in Estonia was that connected with shale. It has been estimated that workable strata cover an area of about 2,400 square km., and that reserves amount to over 5,000 million tons. These reserves were by no means fully exploited during the period, but a beginning was made in using the cheap form of fuel provided by oil-shale for a number of industries and public utilities, such as gas-works and the railways. Moreover, the ashes which remain from oil-shale after carbonization can be used, when ground, as a binding material for building purposes; and, as a result, the quality of Estonian cement acquired a wide reputation. It is also possible to extract a liquid oil from oil-shale, and a plant, which began to operate in 1925, was set up for this purpose. The oil so obtained is refined into a number of different types of spirit such as benzine, gasoline, and lubricating oil; and its commercial use became possible during the period. Finally, it may be mentioned that the British firm, New Consolidated Goldfields Ltd., has been interested in the production of oil from shale for some years. 382 [135] [339] [439]

Lithuania. Before the War Lithuania had no manufacturing industries comparable with those of Estonia and Latvia. Most were connected with the preparation of foodstuffs, tanning, or the manufacture of bricks, glass, and pottery; there was a timber industry, but this was on a much smaller scale than that of the two other countries. There were also two comparatively large ironworks (Schmidt Bros. and Tillmann Bros.) manufacturing nails, locks, 438

438 [727] chains, and other similar articles. Such industrial plant as there was suffered severely from the War; buildings were destroyed, machinery was carried off, and any liquid capital confiscated.

433 727 During the period 1918–31 there was no fundamental change in the industrial structure of Lithuania proper. The period was largely one of reconstruction; and it was possible in many cases to renew plant lost in the War by the use of foreign credits. Production was to some extent assisted by tariffs, but little, if any, attempt was made to obtain a place in foreign markets. The industrial capacity of the country as a whole was, however, substantially increased by the addition to Lithuania proper of the Memel territory, for Memel [464] possesses considerable industries such as sawmills, &c.;[1] and by 1928 it was estimated[2] that altogether about 40,000 persons were employed in manufacturing industry throughout Lithuania and the Memel Territory. As compared with the respective figures for Estonia and Latvia, this figure is small when the very much larger population of Lithuania is borne in mind. In all there were 7,250 undertakings classified as industrial enterprises, of which only 75 employed 50 or more workmen.

II. FOREIGN TRADE AND BALANCE OF PAYMENTS, 1919–30

1. General Observations

439 During the years 1919–30 these countries had to deal with peculiar difficulties in developing their foreign trade. Not only did the period of actual hostilities last until 1922, but the creation of three new independent States required the organization of three separate economic units. In Estonia and Latvia, it is true, there existed a rough basis, consisting of the commercial communities of Tallinn and Riga,[3] on which it was possible to build the necessary organization, since these ports had been two of the most considerable foreign trading centres of the Russian Empire. In Lithuania, however, there was no such organization at all, for until 1918 the territories forming that State had been more or less self-supporting, and Lithuania's foreign trade had to be created, as it were, out of a vacuum. In the event, the development of foreign trade in the Baltic States during

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[1] See above, p. 102.

[2] *Lithuania, 1928*, edited by E. J. Harrison, London, 1928, p. 178.

[3] Before the War Riga had been mainly an export centre; Reval (Tallinn) an import centre. After the War this position was reversed. Riga's imports greatly exceeded her exports, while exports from Tallinn generally exceeded imports (1913 figures):

	Imports	*Exports*
Riga .	. £19,000,000	£23,000,000
Reval .	. £10,000,000	£2,400,000

this period was highly successful. The total turnover (imports plus exports) per head of the population in 1929 was, for Latvia, 325·9 Swiss francs, for Estonia, 294·3 Swiss francs, and for Lithuania, 132·8 Swiss francs. These figures may be compared with (figures for 1929 also) 101·7 Swiss francs for Yugoslavia, and 100·4 Swiss francs for Rumania.

In the system developed during the period three features should be emphasized. Firstly, the trade of all three countries consisted of the exchange of a limited range of raw materials, mostly timber, flax, bacon, and dairy produce, for a wider range of raw materials and for manufactured articles. Though, as was seen, it is incorrect to say that Estonia and Latvia had no industries of importance during the period, their industrial exports (except for timber manufactures and for the Latvian trade with the U.S.S.R. after 1927) were on the whole insignificant. Secondly, the trade of all three countries was dependent to a high degree on exports to the United Kingdom and Germany, trade between the three countries themselves being of little importance. Lastly, in Estonia and Lithuania the value of imports tended roughly to be balanced by that of their exports, while in Latvia there was a habitual excess of imports over exports.

Development during the period is shown in Table 22. It will be seen that from 1923 there was a steady rise in the value of imports and exports until 1928 in Estonia and until 1929 in Latvia. The increase continued throughout the period in Lithuania. The increase of the Lithuanian figures was the greatest, for, as has been seen, it was here that the leeway to be made up was the largest. The reason for the increase in general is to be found mainly in the steadily rising price of raw materials during the period, in the general growth of foreign trade after the War, and not least in the availability of credits from foreign banks, whereby the exports of these countries could be moved. Longer term credits from abroad also facilitated the increase of imports, though perhaps to a smaller extent.

2. PRINCIPAL COMMODITIES

The value of the principal commodities is given in Table 23 on pp. 123–4. It should be noted that the figures in these tables for individual items are probably not strictly comparable as between country and country owing to divergencies of classification, but they do afford a rough basis for comparison.

The principal export commodity was timber, either as sawn logs, or pit-props, or in the form of more highly worked products such as veneers and plywoods. The chief development in exports, however, was a rise in the relative and absolute value of dairy exports, mainly

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TABLE 22. *Value of Foreign Trade, 1920–30 (special trade: excluding bullion and specie)*

(i) *In millions of national currency*

	Estonia (kr.)			*Latvia (lats)*			*Lithuania (lits)*		
	Exports	*Imports*	*Balance*	*Exports*	*Imports*	*Balance*	*Exports*	*Imports*	*Balance*
1920	12·3	14·0	− 1·7	62·3	96·3	− 34·0	55·2	72·3	−17·1
1921	22·9	44·8	−21·9	28·9	73·4	− 44·5	57·6	95·3	−37·7
1922	48·1	55·9	− 7·8	102·0	107·4	− 5·4	76·9	74·9	+ 2·0
1923	57·1	93·3	−36·2	162·0	211·9	− 49·9	146·8	156·6	− 9·8
1924	78·7	82·0	− 3·3	170·5	256·4	− 85·9	266·6	206·5	+60·1
1925	96·6	96·5	+ 0·1	178·9	280·3	−101·4	242·5	250·3	− 7·8
1926	96·2	95·6	+ 0·6	188·2	260·1	− 71·9	253·3	237·9	+15·4
1927	105·8	96·4	+ 9·4	221·1	249·8	− 28·7	245·9	265·6	−19·7
1928	126·6	131·2	− 4·6	261·4	308·0	− 46·6	256·7	290·8	−34·1
1929	117·4	122·4	− 5·0	273·9	361·7	− 87·8	329·7	306·2	+23·5
1930	96·4	98·3	− 1·9	247·9	295·9	− 48·0	333·7	312·3	+21·4

(ii) *In million Swiss francs*

	Exports	*Imports*	*Balance*	*Exports*	*Imports*	*Balance*	*Exports*	*Imports*	*Balance*
1923	85·6	140·3	−54·7	162·0	211·9	− 49·9	76·1	81·2	− 5·1
1924	104·3	109·3	− 5·0	170·5	256·4	− 85·9	138·2	107·0	+31·2
1925	134·7	134·6	+ 0·1	178·9	280·3	−101·4	125·7	129·7	− 4·0
1926	134·2	133·2	+ 1·0	188·2	260·1	− 71·9	130·0	122·1	+ 7·9
1927	147·5	134·4	+13·1	221·1	249·8	− 28·7	126·6	136·7	−10·1
1928	176·2	182·7	− 6·5	261·4	308·0	− 46·6	132·6	150·3	−17·7
1929	162·7	169·7	− 7·0	273·9	361·7	− 87·8	170·4	158·2	+12·2
1930	133·4	136·0	− 2·6	247·9	295·9	− 48·0	173·1	162·0	+11·1
Average 1923–30	134·9	142·5	..	213·0	276·0	..	134·1	130·9	..
Percentage increase, 1923 to peak year	105·1	67·2*	..	69·1	70·7	..	127·5	99·5	..

* 1924 is taken instead of 1923 when imports were abnormally heavy owing to the effects of the War.

butter. This was largely due to the efforts made during the period to encourage dairy farming in all these countries through the extension of the co-operative system. The relative fall in the value of timber exported as between 1923 and 1928–30 was due to the increase in the relative value of butter exports; the absolute value of timber exports increased in each case. Competition from the U.S.S.R. was largely responsible for the failure of timber exports to increase by a larger percentage. This factor also was responsible for the decrease in the absolute and relative value of flax exports after 1923—at any rate in Estonia and Latvia. Estonia and Latvia alone were able to export manufactured articles during the period: these are mainly textile goods made in the mills of Riga and Narva which, as was noted, had formerly supplied much of the requirements of the Russian Empire. Other points which should be noted are the relative

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1: Anonymous U-4 (no date) 1938 RB1 Baltic States RB1

TABLE 23. *Value of the Principal Commodities Exported and Imported*

1. EXPORTS

	(i) Values (in million Swiss francs)						*(ii) Percentages*					
	Estonia		*Latvia*		*Lithuania*		*Estonia*		*Latvia*		*Lithuania*	
	Year 1923	*Annual average 1928–30*	*Year 1923*	*Annual average 1928–30*	*Year 1923*	*Annual average 1928–30*	*Year 1923*	*Annual average 1928–30*	*Year 1923*	*Annual average 1928–30*	*Year 1923*	*Annual average 1928–30*
1. *Foodstuffs.*												
Butter	8·4	46·3	9·3	56·3	*	17·0	9·7	20·4	5·7	21·6	*	10·7
Meat and bacon	1·1	4·9	*	2·2†	*	9·2	1·2	3·1	*	0·8†	*	5·8
Livestock (including poultry)	*	1·0	*	*	8·4	28·8	*	0·6	*	*	11·0	18·1
Eggs	*	*	*	*	7·8	6·8	*	*	*	*	10·3	4·3
Grain	*	*	2·1‡	*	5·6	3·1	*	*	1·3‡	*	7·4	1·9
Other foodstuffs	4·2	9·2	6·4	5·0	2·6	9·3	4·9	5·8	3·9	1·9	3·4	5·8
2. *Other raw materials and semi-manufactures.*												
Timber (including sawn, veneers, &c.)	20·5	28·6	61·7	94·2	21·8	41·2	23·9	18·2	38·0	36·1	28·6	25·9
Paper-making materials	§	8·6	§	3·8‖	2·2¶	1·2¶	§	5·5	§	1·4‖	2·9¶	0·8¶
Hides and skins, including leather	§	3·7	2·3††	8·5	5·6	7·1	§	2·4	1·4††	3·3	7·3	4·5
Flax	17·3	10·7	41·6	16·7	6·7	17·0	20·1	6·8	25·7	6·4	8·8	10·7
Seeds	0·4	0·7	§	7·3	7·0	7·6	0·5	0·4	§	2·9	9·2	4·8
3. *Manufactured goods.*												
Textiles	16·1	26·7	0·5	13·3	§	§	19·1	16·9	0·3	5·1	§	§
Paper	8·9	9·4	2·1	6·6	§	§	10·4	6·0	1·3	2·5	§	§
Rubber boots and shoes	§	§	§	11·4	§	§	§	§	§	4·4	§	§
Machinery and vehicles	§	1·6	2·9	12·3	§	§	§	1·0	1·8	4·7	§	§
Other unspecified exports	8·7	6·0	33·1**	23·5	8·4	10·4	10·2	3·9	20·6	8·9	11·1	6·7
Total	85·6	157·4	162·0	261·1	76·1	158·7	100·0	100·0	100·0	100·0	100·0	100·0

* Included in other foodstuffs. † Bacon only. ‡ Oats only. § Included in 'other unspecified exports'.
‖ 1930 : wood pulp only. ¶ Rags only. ** Including 11·5 million Swiss francs of unwrought metals. †† Raw hides and skins only.

1: Anonymous U-4 (no date)1938 RBI Baltic States RB1

TABLE 23 (*continued*)

2. IMPORTS

	(i) Values (in million Swiss francs)						*(ii) Percentages*					
	Estonia		*Latvia*		*Lithuania*		*Estonia*		*Latvia*		*Lithuania*	
	Year 1923	*Annual average 1928–30*	*Year 1923*	*Annual average 1928–30*	*Year 1923*	*Annual average 1928–30*	*Year 1923*	*Annual average 1928–30*	*Year 1923*	*Annual average 1928–30*	*Year 1923*	*Annual average 1928–30*
1. *Manufactured Articles.*												
Textiles	16·3	18·3	40·5	54·0	25·0	31·0	11·6	11·3	19·1	16·7	30·8	20·1
Iron and steel and metal goods	11·5	13·7	10·0*	24·3	6·9	13·3	8·2	8·4	5·2*	7·5	8·5	8·5
Agricultural machinery	4·9	3·5	}34·6	4·3	1·6	2·2	3·5	2·1	}16·3	1·3	2·0	1·4
Other machinery (including cars)	18·0	17·2		34·4	3·2	13·1	12·8	10·6		10·7	3·9	8·4
Glass	0·9	0·9	†	†	1·9	2·0	0·6	0·6	†	†	2·3	1·3
Paper and manufactures thereof	†	2·9	2·5	4·1	1·9	3·8	†	1·8	1·2	1·3	2·4	2·4
Rubber boots and shoes	†	1·9	†	2·8	†	3·9‡	†	1·2	†	0·9	†	2·5‡
Chemicals, dyes, and paints	†	8·3	17·4	18·6	2·8	4·3	†	5·1	8·2	5·8	3·5	2·7
Other unspecified mineral products	1·8	2·5	†	2·0	0·5	1·3	1·3	1·5	†	0·6	0·6	0·8
Total	53·4	69·2	105·9	144·5	43·8	74·9	38·0	42·6	50·0	44·8	54·0	48·1
2. *Foodstuffs.*												
Grain and flour	15·2	23·3	11·7	48·1	†	†	10·8	14·3	5·5	14·9	†	†
Sugar	8·0	8·2	13·3	12·4	5·3	8·9	5·7	5·0	6·3	3·8	6·6	5·7
Herrings	2·9	3·4	7·8	6·9	2·7	5·0	2·1	2·1	3·7	2·1	3·3	3·2
Other unspecified foodstuffs	6·3	11·3	20·4	21·5	8·8	11·3	4·5	6·9	9·6	6·7	10·7	7·2
3. *Other imports.*												
Petroleum	1·5	2·3	}1·1	6·8	1·0	5·0	1·1	1·4	}0·5	2·1	1·3	3·2
Other oils and rubber	5·3	5·5		4·7	1·3	†	3·8	3·4		1·5	1·6	†
Hides, skins, and leather	†	5·7	8·9	13·1	5·2§	5·4	†	3·5	4·2	4·1	6·4§	3·4
Manure	†	3·6	†	3·4	2·3	7·7	†	2·2	†	1·1	2·8	4·9
Coal and coke	4·6	2·3	9·4	13·6	2·8‖	5·7‖	3·3	1·4	4·4	4·2	3·4‖	3·6‖
Cotton (raw)	16·4	14·2	}8·8	7·1	†	†	11·7	8·7	}4·2	2·2	†	†
Wool (raw)	0·8	1·7		3·0	†	†	0·6	1·0		0·9	†	†
Hemp, jute, and other textile fibres	†	2·0		3·6	†	†	†	1·2	†	1·1	†	†
Tobacco	1·6	1·6	†	4·2	0·9	1·7	1·1	1·0	†	1·3	1·1	1·1
Other unspecified imports	24·3	8·5	24·6	29·0	7·1	31·2	17·3	5·3	11·6	9·2	8·8	19·6
Total	140·3	162·8	211·9	321·9	81·2	156·8	100·0	100·0	100·0	100·0	100·0	100·0

* Ore and semi-manufactured articles only.
† Included in 'other unspecified imports'.
‡ 'Rubber manufactures'.
§ Leather only.
‖ Coal only

and absolute importance of Latvia's timber exports—mainly to the United Kingdom, and the size of Lithuania's exports of live stock. Lastly, though these countries are principally agricultural, Lithuania alone could afford, in these years, to export her grain. 439

Grain and flour in fact constituted an important item in the imports of Estonia and Latvia during this period. The increase in the relative value of grain imports as between 1923 and 1928–30 may be accounted for by the fact that in both countries the development of the co-operative system was encouraging the turning over of land from crops to pasture. By far the most considerable import, however, was that of manufactured goods of all kinds, in each case more than 40 per cent. of the total during the period 1928–30. But, high as this figure was, it was lower than in many other agricultural countries during these years, e.g. the Balkan States. In the case of Estonia and Latvia, this is largely due to the relatively greater importance of industry, as was seen above. Apart from manufactured imports, the Baltic States were forced to obtain a large number of 'colonial' goods such as sugar, tea, and coffee from abroad. They were also compelled to import their entire requirements of coal, coke, and mineral oil.

3. DISTRIBUTION OF FOREIGN TRADE

Changes in the distribution of foreign trade over the period can be seen from the tables on p. 126 in which the figures for 1923, 1927, and 1930 are given.

Importance of the United Kingdom and Germany. The principal fact during this period is, as already noted, the overwhelming importance of the United Kingdom and Germany. In each case these two countries accounted for more than half the exports and more than three-quarters of the imports of the Baltic States. Germany's proportion in the imports and exports of Lithuania was greater than in the other two countries, largely no doubt for geographical reasons. It should be noted that the Baltic States tended to have an export surplus in their trade with Great Britain, which was used to cover the habitual import surplus in their trade with Germany, at any rate in the case of Estonia and Latvia. There was a steady rise throughout the period in the proportion of exports to Germany, though the heavy increase between 1923 and 1927 in the proportion of Estonia's and Latvia's exports to Germany is misleading, for 1923 was the year of the depreciation of the mark. Simultaneously there was a general decrease throughout the period in the proportion of exports to the United Kingdom, though the absolute figures show a fairly steady rise. The principal commodities exported to Germany were butter (Estonia and Latvia), timber, and flax.

1: Anonymous U-4 (no date)1938 RB1 Baltic States RB2

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Table 24. *Distribution of Foreign Trade*

(i) Exports (*per cent. of the total value*)

To:	*Estonia*			*Latvia*			*Lithuania*		
	1923	*1927*	*1930*	*1923*	*1927*	*1930*	*1923*	*1927*	*1930*
Germany	10·8	29·8	30·1	7·6	26·4	26·6	43·3	51·6	59·9
United Kingdom	34·1	31·4	32·3	46·3	34·1	28·4	26·9	24·8	19·5
Belgium	9·0	5·4	1·9	19·7	10·8	6·4	1·6	2·0	2·0
Holland	0·7	2·7	2·2	2·8	5·9	6·0	1·4	1·7	2·0
France	1·5	1·2	4·2	6·6	2·2	5·2	1·2	1·1	0·7
Estonia	—	—	—	1·4	*	1·4	*	*	0·1
Latvia	8·0	5·2	1·7	—	—	—	15·9	8·8	6·9
Lithuania	*	*	*	1·7	*	2·7	—	—	—
Sweden	10·0	4·4	4·0	1·4	1·4	1·1	*	1·6	1·2
Norway	0·4	1·6	1·1	*	0·4	*	*	0·1	*
Denmark	6·2	3·5	7·7	3·2	1·9	1·6	2·5	0·3	1·3
U.S.S.R.	6·7	6·3	4·5	3·7	1·7	14·1	*	0·5	1·6
Finland	8·5	4·8	2·7	0·3	1·2	0·7	*	0·2	*
Poland	*	*	*	0·8	4·0	1·1	*	0·1	*
Danzig	1·2	0·3	1·2	0·2	‡	0·1	*	*	*
Austria	*	*	*	*	0·5	0·2	*	*	*
Czechoslovakia	*	*	*	0·5	0·2	0·4	*	1·5	0·1
Italy	*	*	*	*	0·1	0·2	*	*	0·1
Switzerland	*	*	*	0·1	0·1	0·2	*	*	0·2
U.S.A.	1·3	1·2	2·0	2·4	2·5	1·0	1·8	1·8	0·8
Other countries	1·6	2·2	4·4	1·3	6·6	2·6	5·2	3·9	3·6
Total	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0

(ii) Imports (*per cent. of the total value*)

From:	*Estonia*			*Latvia*			*Lithuania*		
	1923	*1927*	*1930*	*1923*	*1927*	*1930*	*1923*	*1927*	*1930*
Germany	51·0	26·5	28·3	45·2	40·6	37·2	80·9	53·2	48·5
United Kingdom	19·7	14·3	8·6	17·0	10·6	8·5	5·3	6·7	7·7
Belgium	2·3	1·9	1·9	2·4	1·8	1·9	*	1·2	2·4
Holland	1·0	1·6	1·7	4·9	3·0	1·9	0·6	3·4	3·2
France	0·6	3·5	4·2	1·4	2·3	3·2	0·3	1·3	3·0
Estonia	—	—	—	2·4	*	1·3	*	*	1·1
Latvia	3·8	3·1	2·7	—	—	—	3·3	*	4·3
Lithuania	*	*	*	5·4	*	3·1	—	—	—
Sweden	3·2	5·1	4·8	2·4	4·2	3·0	0·2	1·9	2·4
Norway	0·1	0·3	0·1	*	0·1	*	*	0·3	0·4
Denmark	3·1	1·7	2·1	3·1	6·7	1·9	0·1	1·1	1·7
U.S.S.R.	4·0	9·1	9·3	3·6	7·3	5·9	*	2·4	4·4
Finland	3·2	2·2	2·2	0·4	0·7	0·8	*	0·5	0·7
Poland	*	*	*	3·9	8·0	10·5	*	7·8	3·3
Danzig	4·1	0·2	8·5	2·1	*	0·9	1·0	‡	‡
Austria	*	*	*	*	0·8	0·8	*	0·5	0·5
Czechoslovakia	*	*	*	1·2	2·7	3·7	3·3	5·2	5·8
Italy	*	*	*	*	0·4	1·1	*	0·8	2·0
Switzerland	*	*	*	0·8	1·3	1·8	*	0·9	1·2
U.S.A.	3·7	14·2	12·7	2·9	2·8	5·2	2·1	5·5	4·7
Other countries	0·2	16·3	12·9	0·9	6·7	7·3	2·9	7·3	2·7
Total	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0

* Included in 'other countries'.

‡ Included in Poland.

Timber in all forms, flax, and butter were also the principal exports 439 to the United Kingdom.

The proportion of imports from Germany and the United Kingdom tended on the whole to decrease during the period. This again was largely due to considerations arising out of the respective currencies, 1923 being a year in which British and, still more, German goods were cheap to import. After the mark and the pound were stabilized, however, German goods were cheaper to import than British, owing to the comparatively high rate at which the pound was stabilized, and British exports to these countries tended to fall off proportionately more than German. German trade methods in these countries, also, were more enterprising than British; moreover, the German trade connexion in this area being of long standing, it was somewhat difficult for other foreign firms to establish a selling organization. The goods imported from the United Kingdom and Germany during the period covered the whole range of the imports of these countries, though it is probably true to say that proportionately more textiles were imported from the United Kingdom than from Germany, and proportionately more machinery, hardware, and chemicals were imported from Germany than from the United Kingdom. Herrings, coal, and coke came mainly from the United Kingdom.

U.S.S.R. Except for the transit trade, trade with the U.S.S.R. was never resumed during this period on the pre-War basis, at any rate as regards Estonia and Lithuania, though a small quantity of Estonian textiles continued to be imported. The principal development was the commercial agreement signed between Latvia and the U.S.S.R. in 1927, which led to an increase of exports, mainly manufactured, to the latter. The rapid increase in industrial exports to the U.S.S.R. between 1927 and 1930 led for a time to the hope that Latvian industry might recover some of its pre-War importance, but there was a severe decrease after 1930, and the treaty lapsed in 1932.

The Baltic Clause. Trade between the Baltic States themselves, as has been seen, was small; if the export of Lithuanian grain to Latvia is ignored, almost negligible. This was largely due to the fact that the principal exports of these countries are competitive, not complementary, which was one of the principal obstacles to closer economic co-operation in the Baltic States during these years. Nevertheless, in November 1923, Estonia and Latvia concluded a [451] treaty for the establishment of an Economic and Customs Union between the two countries, and an attempt was made to extend this system to Lithuania at a conference held at Kaunas in May 1924. It was then decided to appoint a commission to work out a scheme for the unification of the tariffs of all three countries, and subsequent negotiations proceeded on these lines. The result of such attempts

439 at co-operation was that, among the three Baltic States, the practice grew up of including in commercial treaties concluded with non-Baltic countries the so-called 'Baltic clause'. By this clause the Baltic States reserved for application as between themselves certain privileges which could not be passed on to other countries by virtue of the most-favoured-nation clause.[1] However, the practical results of this measure do not appear to have been substantial.

Other Countries. Apart from the United Kingdom and Germany, the principal markets, then, consisted of the Scandinavian countries and Belgium; Lithuania's commercial intercourse with Poland came to an almost complete standstill after the Vilna incident. Exports to the rest of Europe were negligible, in spite of the conclusion of numerous bilateral agreements during the period. Imports from the rest of Europe also were small except for Czechoslovak textiles and machinery from Belgium. However, the proportion of imports from the U.S.A. was fairly considerable during the period. These consisted largely of agricultural and other machinery.

4. BALANCE OF PAYMENTS, 1919–30

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457 During this period there was a fundamental difference between the position in Latvia and that in the other two countries, since Latvia's merchandise imports invariably exceeded her exports by a large margin:

TABLE 25. *Value of Exports expressed as a Percentage of that of Imports*

	Estonia	*Latvia*	*Lithuania*
1923	61·2	76·5	93·7
1924	95·9	66·6	129·2
1925	100·1	63·8	96·9
1926	100·7	72·4	106·5
1927	109·8	88·5	92·6
1928	96·6	84·9	88·2
1929	95·9	75·7	107·7
1930	98·1	83·8	106·9

Throughout the period the foreign trade balance was, as might be expected, of decisive importance to the balance of payments, the position of which tended to fluctuate with the price of timber and butter. The period can hardly be called normal, for after the War there was naturally a quite abnormal increase of imports for reconstruction purposes, which was financed largely by foreign capital in one form or another, e.g. the League Loan to Estonia, and the loans obtained by all three countries from the Swedish Match group.

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[1] The Baltic clause is examined from a legal standpoint by Dr. Nikolas Kaasik in *Baltic Countries*, vol. i, no. 2, December 1935.

1: Anonymous U-4 (no date)1938 RB1 Baltic Status RB1

Medium-term credit also was provided to some small extent by 457 foreign bankers for such purposes. Unfortunately the estimates of the balance of payments for this period are incomplete and contain numerous discrepancies.[1] It is therefore impossible to compile comparative figures as to capital movements which would not be misleading. However, some indication as to the structure of the current account can be obtained from the following table, giving details of the last three years before the depression:

TABLE 26. *Balance of Payments, 1927–9 (current items only)*

(In million Swiss francs)

	Estonia			*Latvia*			*Lithuania*		
	1927	*1928*	*1929*	*1927*	*1928*	*1929*	*1927*	*1928*	*1929*
I. *Merchandise*									
Merchandise	+13·1	−6·1	−7·5	−38·6	−46·5	−88·1	−12·3	−20·3	+9·1
Adjustments:									
(a) Ships purchased abroad	− 1·0	−1·4	− 1·8	− 9·9	− 4·2	− 5·2	..	..	..
(b) Other adjustments	..	..	..	+26·5*	+36·0*	+42·3*	− 1·4	− 1·6	− 2·1
II. *Interest and Dividends***									
Interest on inter-governmental debt	− 3·6†	−5·1†	− 2·6	‡	‡	‡	− 0·5	− 0·5	− 1·1
Interest on other public debt	..	..	− 2·8	..	..	− 1·9	− 0·5	− 0·5	− 1·0
Interest on other long- and short-term debt	− 5·6§	−5·6§	− 2·8	− 7·5	− 3·3	− 4·0‖	+ 0·1	− 0·2	− 0·6
III. *Other Items***									
Shipping freights	+ 5·6	+5·8	+11·1	+ 4·8	+ 8·7	+10·0	..	..	..
Port fees, &c.	− 1·5	−1·6	− 5·7	+ 1·1	+ 1·1	+ 1·0	+ 0·2	+ 0·1	+ 0·3
Transit fees, warehousing &c.	+ 0·8	+1·0	+ 0·4	+ 8·7	+11·7	+12·1	+ 3·1	+ 3·4	+ 3·8
Insurance	..	−0·1	− 0·3	..	+ 0·3	− 0·2	+ 0·2	− 0·7	+ 1·5
Banking commissions, &c.	..	..	..	+ 0·2	+ 0·3	..	+ 0·1	+ 0·2	+ 0·1
Posts, telegraphs, and telephones	+ 1·2¶	+1·7¶	+ 0·8	+ 0·2	− 0·1	..	+ 0·9	+ 0·6	+ 0·7
Immigrant and emigrant remittances	− 1·5	−0·6	− 1·4	+ 8·0	+ 8·0	+ 8·0	+15·1	+17·5	+14·6
Tourist expenditure	+ 1·6	+2·6	+ 0·1	+ 7·2	− 6·7	− 1·6	− 2·1	− 1·1	− 0·9
Diplomatic expenses	+ 0·6	+0·5	+ 0·7	+ 3·3	+ 3·3	+ 3·3	− 0·2	− 0·1	− 0·3
Other Government receipts and expenses	− 0·7	−0·7	− 0·7	+ 1·3	+ 1·2	+ 0·9	+ 0·6	+ 0·6	+ 0·6
Other current items	− 0·6	−0·4	− 0·8	..	− 1·4	− 2·7	+ 2·0	+ 1·0	+ 0·6
IV. *Bullion*	..	+0·1	+ 0·1	− 0·2	− 0·6	− 0·1	..	− 0·1	− 0·1
Balance	+ 8·6	−9·6	−12·7	+22·0	+ 7·4	−25·8	+ 5·2	− 1·6	+25·4

[*Note:* The figures for individual items are probably not strictly comparable as between the three countries, but they do afford a rough basis for comparison.]

* Adjustment for wrong valuation. † Including payments in respect of League Loan. ‡ These items were included in the capital account. The total debits for interest and amortization were in each year less than 2½ million Swiss francs. § Long-term debt only. ‖ Including banking commissions. ¶ Including some emigrants' remittances. **Net.

It will be seen that the main credit items were those which arose out of port dues, shipping, and the transit trade, mainly to and from the U.S.S.R.; in Latvia the income from the transit trade was one

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[1] e.g. those for Estonia; cf. League of Nations memorandum on *Balances of Payments, 1926–9*, p. 76.

457 of the most important invisible exports during the period, while emigrants' remittances were of considerable importance in Lithuania and to a lesser extent in Latvia. These remittances were mostly from the large number (particularly Lithuanians) of emigrants to the U.S.A.; the figures tend to vary with conditions in that country. It may be observed that these remittances were sometimes sent for investment, and the inclusion of the total figure as a current item is therefore questionable. The only other credit item calling for comment is the adjustment of the Latvian merchandise balance. This consisted largely of a deduction of 10 per cent. from the value of imports, which was officially explained on the ground that a large proportion of Latvia's imports were sent to Riga on consignment and purchased at prices appreciably below those given in the invoices.

The only debit item of any importance consisted of interest and dividends. During this period, at any rate, the service of the foreign debt, private and public, did not occupy a disproportionate position in, or put any great strain on, the balance of payments; and in this respect there is no indication that these countries were suffering from over-indebtedness. It may thus be said that by 1929 these countries had adjusted their balance of payments to the conditions then obtaining. The large excess of merchandise imports which had become natural to Latvia was, however, to call for a radical readjustment in the following period; and the fact that in many ways the financial crisis was more severe in Latvia than in the two other countries may largely be ascribed to this consideration.

III. THE FINANCIAL SYSTEM, 1919–30

1. Currency and Monetary Policy

436 At the end of the War the new States of the Baltic were left to develop monetary systems of their own. Having no substantial financial resources they were almost entirely at the mercy of the large States, such as the U.S.S.R. and Germany, who were their neighbours, for the currency in circulation when the Baltic States achieved their independence was to a very great extent that of Germany and Russia. In all three countries Ostmarks and Reichsmarks were to be found side by side with different varieties of roubles such as Tsarist, Kerensky, Duma, and Ost roubles; in Estonia it is said that commercial transactions even took place on the basis of Finnish marks and Danish or Swedish crowns. The currency in circulation thus fluctuated with that of the issuing State, and a period of great confusion followed.

It is not proposed that a detailed examination should here be made of the various stages by which, in each of these three States,

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the chaotic conditions of the immediate post-War period were overcome.[1] By 1922 or 1923 it had become possible for all three States to introduce their own monetary units, to institute a régime of *de facto*, if not of *de jure*, stabilization, and to establish a central bank. These operations were achieved largely without the help of foreign borrowing, but the feeling of confidence by which they were followed led to a certain influx of foreign capital which accelerated somewhat towards the end of the period. This, in turn, increased the stability of the new currencies. *De jure* stabilization was effected, the gold and foreign exchange reserves of the central banks gradually rose, and by 1929 it might have seemed that the Baltic States had gone a long way towards solving their currency problems.

Latvia. The first of these States to succeed in stabilizing its currency was Latvia. There was an abortive attempt to establish a Latvian rouble shortly after the Armistice, but the extraordinary conditions of the time, as will be seen, led to inflation and a very rapid depreciation of the currency in the following eighteen months. During the latter half of 1920, conditions became more stable, and the pace of inflation began to slacken. By the spring of 1921 it had become possible to introduce a programme of stabilization.[2] A new currency, the lat, was introduced, its gold content being fixed at that of the Swiss franc.[3] A series of rigid economies in the public expenditure were put into effect. By means of certain monopolies, particularly those of the export of flax and timber, the authorities were able to accumulate a considerable exchange reserve. These measures enabled Latvia to enter on a short period of *de facto* stabilization; and the *de jure* stage was reached on August 3, 1922. Finally a State bank, the *Latvijas Bankas*, was formed and came into operation in November of that year. The share capital is owned entirely by the State, and the bank is defined in its statutes as a State institution though it possesses a certain degree of legal independence.[4] The reserve for the note issue consists of gold or 'stable foreign currencies', and must amount to 50 per cent. of the first 100 million lats of notes in circulation and 75 per cent. of the next 50 million lats.[5] The reason why these proportions are so high is that there is a considerable volume of Treasury notes in circulation in addition to those of the bank itself.

Lithuania. The situation in Lithuania immediately after the War 000

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[1] For full details cf. von Lehnich, op. cit.

[2] The successful carrying out of this policy was due largely to M. Kalning, the Minister of Finance, by whose name the programme is usually known.

[3] Making a parity of 25·2215 lats to the gold £.

[4] The position is fully examined in Kisch and Elkin, *Central Banks*, London, 1930, pp. 23–4.

[5] But see below, p. 174, footnote 2.

436 722 Lithuania. The situation in Lithuania immediately after the war was rather different.[1] The currency in circulation at the outbreak of War was the rouble, but with the German occupation Reichsmarks came into circulation. To regularize this position a special institution was set up in 1916 by the German authorities, which issued the so-called 'Oberost' notes in exchange for roubles and marks. But, owing to the conservative instinct of the peasants, roubles tended to be hoarded, and thus the backing for the 'Oberost' money came to be preponderantly German currency. This system was maintained after the declaration of independence, and Lithuania had actually had no currency of her own until 1922, for the authorities continued to issue 'Oberost' notes, which were known as 'Auksinas'. This currency naturally fluctuated with the German mark, and the rapid depreciation of the latter during 1922 made the introduction of an independent Lithuanian currency an urgent necessity. It was finally 652 436 decided to create the litas, the parity of which was fixed at one-tenth of the U.S. gold dollar,[2] since this currency was familiar to many Lithuanians, owing to the large number of their compatriots who had emigrated to the United States. The currency came into circulation 439 652 453 on October 1, 1922. Simultaneously a bank of issue, the *Lietuvos Bankas*, was established with a gold reserve consisting largely of 3 million gold roubles received from Russia under the Peace Treaty. The bank was granted the sole right of note circulation, one-third of which must be covered by gold. Half of the share capital is held by the State, and provision is made by statute for the exercise of the authority of the State over certain of the bank's activities.

436 652 *Estonia*. The monetary history of Estonia during the period was rather different from that of the other two countries. This was due to Estonia's credit policy. Shortly after the declaration of independence Estonia began to issue its own currency, the Estonian mark, based roughly on the German mark, of which a great number were then in circulation. The extraordinary needs of the war with Russia led to a steady depreciation, which lasted until about the middle of 1921. But, though the need for extraordinary expenditure such as that required in the previous two years had ceased by 1921, the policy of the Central Bank (*Eesti Pank*), which had been formed in 1919, somewhat aggravated the situation. This bank was a State institution and acted as a bank of issue. But it was also the most important commercial bank of the country, for, during the years 1921–3, the Government endeavoured to restore something of Estonia's former industrial activity by supplying industry with

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[1] A full account will be found in Dr. Kazys Sruoga, *Die Wirtschaft der Republik Litauen und ihre Notenemission*, Kaunas, 1930.

[2] Parity to the gold £ being, therefore, 48·666.

working capital through the *Eesti Pank*. Meanwhile, though the 436
bank was able to keep the mark more or less stable at the rate to 652
which it had depreciated by 1921, this was effected only at the cost 648
of a large proportion of its reserves. This led to a severe crisis in
the autumn of 1924 and the League of Nations was called in to
advise.[1]

The restriction of credit which followed on this step enabled Estonia
to maintain the stability of the currency at the depreciated rate. For
the *de jure* stage of stabilization, appeal was again made to the
League in November 1926. Their report[2] recommended the reform
of the *Eesti Pank*, and the transfer of the long-term assets it had
accumulated through the Government's earlier industrial policy to
a specially created Mortgage Institute, both of which recommendations
had been made in the earlier report but had not yet been put
into effect. The League also advised the introduction of a new 648
currency. To enable these reforms to be realised an international 457
loan was required, and, if the necessary changes were made, the
League declared its readiness to allow the loan to be issued under its
auspices.

The loan was issued in June 1927, £700,000 in London and 459
Amsterdam at 94½, and $4,000,000 in New York at the same price. 652
£1,000,000 of the proceeds went to purchase the long-term assets of
the *Eesti Pank*, which were then transferred, as recommended, to
the newly created Mortgage Institute. Efforts were made by the [648]
League to secure some measure of independence for the Central Bank [453]
from the State, and the State undertook to sell certain of its shares
in the bank.[3] The scope of the bank's lending operations were strictly
limited by the new Statutes. It was also granted the monopoly of the
note issue, and the legal cover, which had previously been such as to
encourage its commercial operations, was to consist as to not less
than 40 per cent. of gold or 'gold exchange'. Finally, the parity of 456
the new currency, the Estonian kroon, was fixed at that of the 453
Swedish crown,[4] and the currency was put into circulation at the
beginning of 1928.

Once *de jure* stabilization was achieved, the stability of these currencies was maintained throughout the period without recourse to official exchange restrictions. There was also a steady increase in the gold and foreign exchange holdings of the Central Banks, though, except in Lithuania, there was a tendency for reserves to fall towards

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[1] The report of the Financial Committee of the League was issued in March, 1925: see League Document C. 240, M. 92, 1925, II.

[2] *Banking and Currency Reform in Estonia, May 25, 1927*: League Document C. 237, M. 89, 1927, II.

[3] According to Kisch and Elkin, op. cit., p. 27, a large proportion of its holding was sold in 1929.

[4] Giving a parity to the gold £ of 18·1596.

436 the end of the period. At all times, however, the cover for the note
453 circulation was well above the legal requirements. The position can be seen from the following table:

Table 27. *Gold and Foreign Currency Reserves: Notes in Circulation*

	*Estonia** (kr.) *Central Bank*		*Latvia* (*lats*) *Central Bank*		*Lithuania* (*lits*) *Central Bank*	
End of	*Gold and foreign currency reserves*	*Notes in circulation*	*Gold and foreign currency reserves‡*	*Notes in circulation†*	*Gold and foreign currency reserves*	*Notes in circulation*
1922	..	37	45	54	33	30
1923	14	34	67	63	66	60
1924	13	36	71	68	94	93
1925	13	35	53	61	64	82
1926	14	34	55	62	69	87
1927	22	39	76	71	86	97
1928	31	36	101	77	80	85
1929	27	34	80	83	113	95
1930	23	32	65	86	125	117

* The figures for 1922–6 are obtained by revaluing the original figures, which are given in Estonian marks, at the official rate of conversion into kroon (100 Estonian marks = 1 kroon).

† Including the Treasury note issue. ‡ Including those held by the State.

2. Foreign Debt

457 The Baltic States all suffer from lack of capital, and it was therefore inevitable that during this period there should be some borrowing abroad. This borrowing, however, was not excessive, and the meeting of the foreign debt service has never been as difficult a problem as, for example, it has been in Central and South-East Europe. But no account of the economic and financial structure of these States would be complete without some description of the foreign debt.

The position at the end of 1930, by which point foreign indebtedness had probably reached its greatest dimensions,[1] can be seen from the following table, based on figures taken from the League of Nations Memorandum on *Balances of Payments* for 1933. The capital raised during the period is represented largely by items 2 and 4. No data are available for estimating Estonia's private short-term debt, but from figures given in this publication for subsequent years it appears to have been small, if not negligible. It will be seen that, while the per head foreign indebtedness in Estonia and Latvia is roughly the same, that of Lithuania is very much smaller:

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[1] Lithuania, however, obtained a loan from the Swedish Match Co. in 1930, payments to Lithuania in respect of which continued to be made until 1932.

TABLE 28. *Gross Foreign Indebtedness*

(*In million Swiss francs*)

	Estonia	*Latvia*	*Lithuania*
1. Inter-governmental debt	114·0	85·1	36·2
2. Other Government and municipal debt .	51·7	31·1	37·7
3. Foreign long-term investments in banks, industry, &c.	45·8	104·8	33·6
4. Private short-term debt and other debt	?	137·3	15·9
Total	(211·5)	358·3	123·4
Total per head of population (Swiss frs.)	(190·0)	177·0	49·0

Inter-governmental debt consists chiefly of War and relief debts, mainly to the U.S.A. and the United Kingdom. These debts were funded, mostly between 1925 and 1928, as follows (figures in millions):

	To U.S.A.	*To Great Britain*
Estonia	$13·8	£1·2
Latvia	$ 5·8	£2·3
Lithuania	$ 6·0	£0·2

In addition, there are a number of small inter-governmental debts similar in origin, such as the Lithuanian debt to France, Italy, and the United Kingdom, for the occupation and administration of the Memel Territory. A certain amount of other small debts arising from the War were repaid during the period and are therefore not included in the above tables, e.g. the Latvian relief debts to Norway and Estonia. On the whole, the liabilities assumed by these States in respect of the War were not large, especially in view of the considerable services which they represented. Interest and capital repayment on all the larger War and relief debts, and on most of the smaller inter-governmental debts not referred to in detail above, have been suspended since 1932.

The other foreign debt of these Governments is small. Estonia was the only country to make an international public issue, the 7 per cent. Banking and Currency loan of 1927 brought out under the auspices of the League of Nations.[1] Lithuania, however, obtained in 1920 a loan of $1·8 millions (the 5 per cent. Liberty Loan), which was subscribed privately by Lithuanians in the U.S.A. and used for reconstruction purposes. Apart from this, the foreign debt of the three Governments consists almost entirely of three loans received from the Swedish Match Trust towards the end of the period. In each case the loan was made in return for the cession to the company of the match monopoly. The loan to Latvia was made in 1928 and is repayable by 1964. The total nominal amount was $6 millions, interest being payable at 6 per cent. The proceeds were used largely for public works, the cost of which had led to a budget deficit,[1] and for advances to agriculture. The loan to Estonia was made in 1930, its total nominal amount being 7·6 million Swedish krone; interest is payable at 6 per cent. and the loan is redeemable by 1958. Lithuania obtained her loan a few months later; she was to receive $6 millions in three annual instalments, interest being payable at 6 per cent. Redemption was to take place by 1965. Only two instalments were received, however, and in 1935 it was agreed that the nominal amount of the loan should be reduced to $4·5 millions, and the rate of interest to 4½ per cent. The proceeds were used for long-term loans to agriculture and public works. It may be added that Riga's refusal to recognize liability for the loan issued in London before the War[2] was an obstacle to any attempt by Latvia to obtain a loan in the London market during the period, while Lithuania was perhaps not considered a good risk owing to the Vilna and Memel questions.

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[1] For the details of this loan, see above, pp. 133.

As can be seen from Table 28 above, the rest of the foreign indebtedness consists of foreign investments in banks and industrial enterprises. To some extent the figures given in this table represent investments made long before the War, but for the most part they relate to this period. The reason for the comparative importance of this item is simply that, in countries so short of capital as the Baltic States, any major plan of development such as, for example, the building of a power station, or any activity requiring large sums of liquid capital such as banking, are almost impossible without foreign assistance. Full comparable details as to the countries chiefly interested in the Baltic States are not available. Table 29 opposite may, however, be of interest.

Figures are not available for Estonia, but here the greatest single creditor country is probably the United Kingdom, followed by Sweden and Germany. A considerable interest, however, is held by the Netherlands.

The industries in which the greatest amount of foreign capital is invested are probably textiles and chemicals; at any rate in Latvia and Estonia, British, Swedish, and German capital being largely represented. The British Overseas Bank, Ltd., of London, is interested in banking in Estonia and Latvia, while a small amount of German capital is invested in the banks of these two countries. In Lithuania, where, as will be seen, the banking system is rather different from that of the two other countries, there is not a great

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[1] See below, p. 139.

[2] But see below, p. 152.

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TABLE 29. *Details of Foreign Indebtedness*

Latvia (end of 1930) *Distribution by creditor countries of nominal (paid up) participation in Latvian joint stock companies* *(In million Swiss francs)*		*Lithuania (end of 1933)* *Distribution by creditor countries of nominal (paid up) participation in, and long-term loans to, Lithuanian enterprises** *(In million Swiss francs)*	
Germany	25·7	Sweden	10·2
Great Britain	16·1	Belgium	8·9
Sweden	11·8	Great Britain	7·2
Netherlands	8·4	Germany	5·3
Belgium	7·3	U.S.A.	2·3
Tsarist Russia	7·1	Netherlands	1·7
Estonia	6·6	Latvia	1·7
U.S.A.	5·3	Others	1·0
Others	16·5		
Total	104·8	Total	38·3

* See *Lithuanian Telegraph Agency (Elta) Service*, February, 1935.

deal of foreign capital invested in banks, though what there is is largely German, and relates principally to the Memel Territory. Of the other industries in which foreign capital has played an important part during this period may be mentioned the metallurgical and leather industries in general; in Estonia the plywood (Venesta Ltd.) and shale-oil industries (New Consolidated Goldfields, Ltd.), and in Latvia and Lithuania the paper industry, British capital being chiefly interested in both cases. Lastly, a Belgian concern is interested in a power station operating in Kaunas.

3. PUBLIC FINANCE

It was some years after the War before order could be established in public finance. Apart from the problem of financing the many extraordinary calls on public expenditure, there were various other difficulties which led to much confusion. Of these perhaps the most serious was the task of creating and developing financial systems where none had existed before. In this the lack of persons with administrative experience was an additional hindrance. Moreover, the monetary chaos of the time made any form of budgeting or accounting extremely difficult. On the other hand, the Baltic States, unlike some of the new countries of Central and Eastern Europe, did not start their existence with a legacy of foreign indebtedness inherited from previous régimes. In the circumstances it was, perhaps, inevitable that there should be a period of currency inflation, though it is sometimes difficult to establish how far these States were themselves responsible for this inflation, and how far it was due to inflation in the countries whose currencies they were using at the time. Towards the middle of this period, however, the need for 652

652 extraordinary expenditure ceased, and in all three countries it became possible to develop systems of public finance on a more orthodox basis. Only in Estonia was it necessary to obtain a foreign loan [656] for this purpose. As a result of the scarcity of capital, the State was often compelled to take over, during the early days, the administration of enterprises which elsewhere would have been left to [439] private initiative. In Latvia, for example, the State took over the entire foreign trade of the country for a period. Most of these extraordinary measures were dropped when more normal conditions returned, though it is hardly surprising that the railways remained in the hands of the State in practically every case.

From about 1925 onwards there was a fairly steady increase in expenditure up to 1928 or 1929. This was largely due to the comparative prosperity of these years, which made it easier to collect the necessary taxation. State expenditure reached a relatively high level in Estonia and Latvia, where the figure per head of the population in 1928–9 (ordinary and extraordinary expenditure) was respectively about 114 and 107[1] Swiss francs. State expenditure in Lithuania was on a considerably lower scale, and the corresponding per head figure in the budget year 1929 was about 59[1] Swiss francs, though Lithuania is exceptional in that expenditure did not reach its peak until 1931. Unfortunately, owing to differences in budgetary systems, it is not possible to attempt a detailed comparative analysis of the various items of expenditure. The largest single item is usually communications, for, apart from the current expenses of running the railways, there were in most cases many repairs arising out of the War which had to be undertaken. Defence usually accounted for about 15 to 20 per cent. of the total. The really striking feature of public expenditure in these years is the comparatively low cost of the debt service, in spite of the funding of debts arising out of the War.[2] In Latvia and Lithuania interest and amortization usually amounted to less than 2 per cent. of the total ordinary and extraordinary expenditure. Owing to the cost of the League Loan, the figure in Estonia was somewhat higher, though it continued to be under 5 per cent. of the total until 1930–1. The importance of these figures can be seen from the fact that in some of the Balkan States the service of the external debt alone usually accounted for about 20 per cent. or, occasionally even more, of the total annual expenditure by the end of this period.

Expenditure was to a very large extent covered out of revenue, at any rate during the latter half of this period, and in very few instances were there deficits. Where there were deficits they generally resulted from special capital expenditure, which was to be 652 covered out of loans raised for this purpose. This, for example, was the cause of Latvia's deficit in 1928–9, which was covered out of the proceeds of a loan contracted with the Swedish Match Company.[1] In Estonia, on the other hand, every fiscal year from 1922 to 1930–1 closed with a surplus. In general it is clear that, in the few cases where loans were obtained by the State during this period, the proceeds were allocated, to a very large extent, for capital expenditure of one sort or another, and were not used simply to bridge gaps between ordinary revenue and expenditure.

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[1] These figures may be compared with 60·5 Swiss francs for Rumania in 1928–9.

[2] For details, see p. 135 above.

The difficulty of collecting direct taxes in peasant countries such 651 as the Baltic States is considerable. It is not surprising, therefore, that only a small proportion of the public revenue is obtained from such sources:

TABLE 30. *Sources of Public Revenue*

Fiscal year	*Estonia* *1928–9* *(mill. kr.)*	*Latvia* *1928–9* *(mill. lats)*	*Lithuania* *1929* *(mill. lits)*
1. Total ordinary and extraordinary revenue	92·2	184·9	299·3
2. Total direct taxation	7·7	13·0	37·6
3. Percentage of direct taxation . .	8·3%	7·0%	12·6%

As regards the other sources of revenue, the most important was generally the Customs duties which, in the years referred to in the above table, amounted to 22·6 per cent., 33·1 per cent., and 20·6 per cent. of the total ordinary and extraordinary revenue, respectively, for Estonia, Latvia, and Lithuania. Apart from this, the chief items of revenue were the alcohol or spirit monopolies, which were held by the State in all cases during this period, and the receipts from the State forests. The railways do not appear to have yielded any very great net revenue to the State during the period.

In general, the finances of these States were soundly and successfully administered during most of the years here considered. 652 The general level of expenditure, though high when compared with that of certain Central and East European countries, was not excessive. Public finance was not overburdened with a heavy interest charge. There was no extravagant borrowing at home or abroad. The level of taxation, so far as can be seen, was by no means intolerable. But, as with all countries which primarily produce raw materials, this favourable position largely depended on the maintenance of the existing level of prices; and, if they began to fall, it was clear that drastic changes would occur. Moreover, it has been seen that even during the present period there were several instances where the

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[1] See above, p. 135.

652 State had begun to encroach upon the field of private enterprise. The implications of this movement will become clear when the period after 1931 is considered.

4. The Banking System

453 Before the War banking had been fairly highly developed in Estonia and Latvia. The centre of the system, however, was naturally St. Petersburg. There was a considerable number of commercial banks in most of the more important towns of the Baltic Provinces, mostly with head offices in that city.. Indeed, it was a frequent complaint that the commercial banks invested an excessive part of the deposits which they drew from the Baltic Provinces in [439] other parts of the Empire. These banks were largely concerned with the foreign trade conducted through Riga, Reval, and the other large ports and, to a lesser extent, with the financing of industry. In addition, since the beginning of the century, the Russian authorities had done something to foster the growth in all three countries of mortgage institutes for local requirements, and of municipal banks. The mutual credit association, also, was beginning to become popular.

The War, of course, destroyed this system. Liquid assets held in the branches were withdrawn to the head office, records were destroyed, and finally, in many cases, the parent institution ceased to exist. But the system left its mark on the Baltic States. For, when these States began to develop banking systems of their own, an unusually clear distinction was drawn between the function of the commercial banks and that of the other units of the system. Banking during this period grew up largely on the principle of the specialization of functions; and, even in Lithuania, where financial technique is less developed than in the other countries, there is a comparatively large number of categories of banks. Thus, in addition to joint stock commercial banks proper, there are usually to be found private banks, rural and urban credit institutions, mutual credit associations, and municipal banks, apart from the banking apparatus of the cooperative system.

In spite of this diversity of types, there is nothing in the Baltic States which corresponds to a money market, and the credit system is directly dependent on the central bank. This usually tended to render credit expensive, and during most of this period the rate of interest was considerably higher than in Western Europe. It would [157] certainly have been higher still but for the fact that the investments of foreign banks in the commercial banking systems of the Baltic States were substantial, and foreign credits were therefore easy to obtain at comparatively cheap rates. This, together with the return of more normal conditions after the War, led to a noteworthy expansion of commercial banking, particularly in Estonia and Latvia, which continued to the end of this period. The expansion was not accompanied by any extension of the principle of branch banking, which rarely occurs, but, perhaps for this reason, a large number of smaller banks came into being. 453

Commercial Banks. In Estonia and Latvia these banks were often created out of the business of banks which had existed before the War, though in a few cases there were joint stock commercial banks, and occasionally private banks, which survived the War. In Lithuania nearly all the more important commercial banks were created after the War. In all three countries the joint stock form is usual. The commercial banks are to a very large extent concerned with financing foreign trade, and, probably for this reason, the commercial banking system of Estonia and Latvia is more highly developed than that of Lithuania. They do to some extent finance local industries, though not to the same degree as in Central Europe, and their long-term loans to industrial undertakings are comparatively small. The interest of foreign capital in this type of bank is considerable. The United Kingdom and Germany have the greatest participation in the commercial banks of Estonia and Latvia; Germany, however, is the only foreign country with any substantial investments in Lithuanian banking. The fact that the banks which finance foreign trade are themselves often financed largely by foreign capital was of great importance to those States during the period, for there is little doubt that foreign trade would not have developed so fast if foreign credits had not been available in this manner. In the event, commercial banking expanded very rapidly. Indeed, the scarcity of capital during this period often compelled these banks to work on a basis which might well be called overtrading. The following table,[1] shows the position at the peak of this period of expansion: 453 457

TABLE 31. *Position of Commercial Banks*

	Estonia as at 1.12.30	*Latvia as at 31.12.29*	*Lithuania* as at 31.12.29*
Number of Banks	40	20	9
	(mill. kr.)	(mill. lats)	(mill. lits)
Total assets	194·0	199·7	60·4
Cash	4·0	7·2	3·4
Loans and advances	86·6	86·2	23·7
Paid-up capital and reserves	15·6	33·7	13·4
Deposits	96·0	61·6	33·6

* Excluding Memel.

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[1] Based on figures given in the League of Nations, *Memorandum on Commercial Banks, 1929–1934*, Geneva, 1935.

652 *Mortgage Credit.* In all three countries the Government took steps shortly after the War to provide machinery for granting mortgage loans to farmers and others. The proceeds of the loans were used largely for purchases of stock, plant, and agricultural machinery, and for the reconstruction of buildings destroyed in the War. The Latvian Government established a State Land Bank in 1922 to grant mortgages on agricultural land, and two years later a State Mortgage Bank for financing similar requirements in urban districts. In Estonia the State also formed a Land Bank in 1926 for issuing agricultural mortgage loans and, in 1928,[1] a National Mortgage Bank to take over certain long-term assets of the Central Bank; the new institution also made long-term loans not only to farmers but to industrialists, ship-owners, and co-operative societies, and, for house-building, to private persons. The Lithuanian Government formed a Land Bank in 1924 for issuing mortgage loans to farmers. In all these cases the rate of interest charged was high compared with rates in Western Europe.

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452 *Credit Co-operatives and Other Institutions.* The application of the co-operative system to agriculture and dairy farming led to a very considerable growth of co-operative credit institutions, especially in rural districts. The ground had been prepared before the War by the growth, chiefly since the beginning of the century, of mutual credit associations, and many of these were absorbed in the new credit co-operatives, though there still exists a substantial number of [652] mutual credit societies in the Baltic States. Though the number of institutions is large, the individual credit co-operative is small, but in Estonia and Lithuania means were provided for helping the smaller institutions, as well as the large, by the foundation with State assistance of a co-operative central bank. There is still a small number of municipal banks in Estonia and Latvia. These institutions originated in Tsarist days with the municipal banks, whose liabilities were guaranteed by the municipality.

456 *Insurance.* In Latvia the number of insurance concerns is large; there were in 1935 about 470[2] institutions, though most of these were small local businesses. Most of the larger risks insured relate to shipping and foreign trade. There is also a State insurance department which apparently competes with the ordinary commercial concerns.[3] Foreign insurance businesses are not allowed to operate in Latvia. There is a considerable insurance business in Estonia but less highly developed than in Latvia. That of Lithuania is still less developed, though foreign, chiefly German, capital here played some part during the period.

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[1] See above, p. 133.

[2] D.O.T.: *Economic Conditions in Latvia, January 1935*, publ. 1935, p. 7.

[3] For later developments, see below, p. 185, footnote 3.

PART II. THE CRISIS OF 1931 AND SUBSEQUENT DEVELOPMENTS

INTRODUCTION

THE economic system built up by the Baltic States during the period which ended in 1930 was highly sensitive to tendencies in the outside world. In other words, the system depended very largely on the maintenance of prices at or around the levels of the years 1925–30, and still more on the ability of the chief markets to continue to absorb Baltic exports. The system also presupposed that foreign capital would be available to finance foreign trade and, eventually, the larger schemes of development for which money was lacking at home. 433

The crisis of 1931 swept away these assumptions. There was first 458 a catastrophic fall in the price of all the commodities produced by 439 these States. Simultaneously the principal markets, the United 457 Kingdom and Germany, began to restrict their imports from the Baltic countries. The result was a considerable fall both in the exchange available for imports and in the exchange reserves held by the Central Banks. This led, in turn, to the imposition of exchange restrictions and, in Estonia and eventually in Latvia, to the abandonment of the currency parities introduced after the War. Meanwhile, in order to save foreign exchange, imports had to be reduced to a small fraction of the figures attained before the crisis, with a consequently severe effect on the whole productive system. Finally, budgets were thrown into deficit and there was a general [452] increase in public internal indebtedness.

During the years which followed 1931 the Baltic States have been adjusting themselves, gradually, and on the whole with a considerable degree of success, to the new conditions which have since prevailed. The process of adjustment has been immensely assisted by the fact that, unlike most of the States of Central and Eastern Europe, the Baltic countries did not accumulate an excessive amount of foreign indebtedness in the years before the crisis. On the contrary, one of the chief differences between the effect of the crisis in the Baltic and that in the Balkans, for example, is that none of the Baltic States has defaulted on its foreign debt.

For countries as small as the Baltic States, a policy directed towards 433 the greatest possible isolation from the outside world—such as that pursued by Italy or Germany—was obviously out of the question. Nevertheless, the adjustment has been accompanied by a complete reorganization of the productive system. Estonia and Latvia, in order to economize exchange, have increased their production of cereals, which, as a general rule, they now no longer import. Latvia

433 has ceased to import more goods, in value, than she exports. In all
three countries, though less, perhaps, in Lithuania than in the other
two, the progress of industry has been considerable. But the re-
475 organization is not limited to the nature of production itself. For,
especially in Estonia and Latvia, the State has gradually tended to play a more and more important part in the economic system, until its activity in some respects can be described only as State capitalism. Thus, though there has certainly been a substantial recovery in all three countries, the economic systems, at any rate of Estonia and Latvia, have emerged from the depression in a very different form from that in which they entered it.

I. PRICE MOVEMENTS AND THE PRODUCTIVE SYSTEM, 1931–7

1. General Considerations

435 The main results of the crisis of 1930–2, as has just been mentioned,
511 were severe falls in the price of the principal articles produced by
the Baltic States, and an almost equally heavy decrease of consumption in their chief foreign markets. The former of these two results had a serious effect, first on the position of the agricultural population and then upon the standard of living of the whole community. Since the worst year of the crisis prices have not only ceased to fall, but have risen appreciably; in Estonia and Latvia currency depreciation and devaluation have given an additional stimulus to the rise of prices expressed in national currency. To this extent the difficulties caused by the fall of 1930–2 have been diminished. On the other hand, consumption in the chief markets of the Baltic States has improved only very gradually, and the problems
433 caused thereby have therefore been of a less transitory nature. For,
178 in order to remedy the consequent shortage of exchange, Latvia,
Estonia, and, to a smaller degree, Lithuania have been forced to modify their productive systems in order to produce commodities which were formerly imported. Thus, during the years 1931–7, Estonia and Latvia have become to a very large extent self-supporting in certain of the chief foodstuffs, and in all three countries a policy of industrialization is being pursued.

2. Price Movements and their Effects

435 The extent of price movements during these years is shown in Table 32 on p. 145.

These indices, of course, include the price of a number of articles not produced in these States, especially certain imported manufactured goods in which the fall of prices was smaller than in many

TABLE 32. *Price Movements in the Baltic States,*[1] *1931–7* 435

(1929 = 100)

	Estonia	*Latvia*	*Lithuania*
Average for year 1929	100·0	100·0	100·0
" " 1930	87·2	85·0	86·6
" " 1931	77·8	70·7	74·2
" " 1932	70·9	71·0	60·9
" " 1933	72·6	69·8	53·6
" " 1934	72·6	69·2	51·5
" " 1935	71·8	72·6	46·4
" " 1936	77·8	75·6	46·4
" " 1937	86·3	94·2	52·6

articles they produce. The price of the staple agricultural products, in fact, often fell far more heavily than is suggested by these figures, while that of the manufactured goods used by the farmers fell more slowly; and the Baltic farmer was very severely affected by this opening of the 'price-scissors'. Moreover, the index figures are misleading in the case of Estonia and to some extent in that of Latvia, owing to the abandonment of the gold standard during 1933 in the former country, and in the latter to the adoption of certain measures equivalent to the recognition of currency depreciation,[2] before the gold standard was abandoned in 1936. If, for example, the index figure for Estonia in 1934 were adjusted so as to allow for the depreciation of the currency, it would stand not at 72·6 but at 45·1.

The chief effects of the fall in prices upon the agricultural classes were a heavy increase in the service of their debts, which had been contracted for the most part when prices were considerably higher, and an increasing difficulty, amounting often to impossibility, in purchasing manufactured articles. In Estonia and Latvia the State was able to assist the farmer to some extent. Thus in 1933 the State Mortgage Bank of Estonia reduced the rate of interest on loans contracted before October of that year from 8 to 6 per cent., while in March 1934 part of the debts of certain small farmers to the State Agricultural Bank were cancelled, and the service of certain other such debts was suspended until 1937. At the same time service on the debts of certain small debtors to the State Mortgage Bank was remitted for a similar period.[3] In both countries measures were taken, more or less successfully, to maintain agricultural prices, e.g. the subsidies offered on rye and wheat or the export premiums granted for bacon, butter, and eggs. Moreover, the increase in grain production encouraged by the

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[1] Estonia and Latvia: wholesale price indices, taken from League of Nations, *Monthly Bulletin of Statistics*. Lithuania: *Lietuvos Bankas Bulletin*, February 1938 (no. 15 [39]), 'commodity price' index (1926–9 = 100) adjusted with 1929 as base year.

[2] See further p. 174.

[3] League of Nations, *Memorandum on Commercial Banks, 1929–1934*, Geneva, 1935, p. 72. For the banks here mentioned, see above, p. 142.

435 Governments of these two States did much to compensate the agricultural class as a whole for falls in the price of their staple products. 652 No such policy was possible in a country such as Lithuania, where 565 agricultural production could not readily be increased. Here the situation was aggravated by the economic difficulties with Germany arising out of the Memel question,[1] and the position of the peasant [511] long remained miserable. It was stated in November 1935 that 'in spite of all the relief afforded directly and indirectly by the Government, farmers are thrown back on their own resources, even to the wearing of home-spun cloth and straw shoes'.[2]

435 Since 1935, however, prices have risen appreciably in all three countries, and even in Lithuania, where the gold content of the currency has remained the same throughout, the increase has been substantial. The rise gathered momentum during the earlier part of 1937 and, though most prices have since fallen somewhat, the [434] effect upon the position of the farmer has been enormous. The resulting increase in the purchasing power of the agricultural population has, in fact, been the basis of the active industrial conditions which persisted in Estonia and Latvia during 1936 and 1937–8, and of the considerable increase in Lithuania's imports in 1937, most of which are of an industrial nature.

3. AGRICULTURE

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433 The production of cereals over the period is shown in the following table:

TABLE 33. *Cereal production*

	Area under crop (thousand ha.)				*Production (thousand quintals)*				*Yield (quintals per ha.)*			
	Average 1926–30	*Average 1931–5*	*Year 1936*	*Year 1937**	*Average 1926–30*	*Average 1931–5*	*Year 1936*	*Year 1937**	*Average 1926–30*	*Average 1931–5*	*Year 1936*	*Year 1937**
Wheat												
Estonia	30	56	66	68	331	634	662	753	10·7	11·3	10·0	11·1
Latvia	61	119	129	137	731	1,632	1,435	1,715	11·8	13·7	11·1	12·5
Lithuania	163	205	196	209	1,939	2,532	2,159	2,174	11·9	12·4	11·0	10·4
Barley												
Estonia	114	107	101	89	1,139	1,034	868	819	9·9	9·7	8·6	9·2
Latvia	176	185	189	192	1,570	2,004	1,650	2,314	8·9	10·8	8·7	12·0
Lithuania	201	202	214	214	2,113	2,435	2,336	2,471	10·7	12·1	10·9	11·5
Rye												
Estonia	142	147	137	149	1,694	1,907	1,535	2,059	12·1	13·0	11·2	13·8
Latvia	254	253	258	288	2,471	3,146	2,860	4,214	9·7	12·4	11·1	14·6
Lithuania	471	498	492	510	5,184	5,691	5,414	6,009	10·8	11·4	11·0	11·8
Oats												
Estonia	144	142	138	145	1,278	1,409	1,138	1,437	8·9	9·9	8·2	9·9
Latvia	297	317	339	335	2,561	3,543	2,844	4,049	8·6	11·2	8·4	12·1
Lithuania	335	350	357	348	3,370	3,735	3,316	3,898	9·4	10·7	9·3	11·2

* 1937: provisional figures only.

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[1] See below, p. 167.

[2] D.O.T.: *Economic Conditions in Lithuania, November 1935*, publ. 1936, p. 24.

The remarkable increase[1] shown in production since 1930 is partly, no doubt, due to the poor harvests in the 1926–30 period and also to the effects of the agricultural reforms carried out immediately after the War, which had scarcely had time to appear by 1930. But, both in Estonia and Latvia, the shortage of exchange induced the Government to encourage the farmers to bring more land under grain, particularly wheat, which to a large extent had been imported before this period. The average acreage under the four principal cereal crops increased by 5·1 per cent. in Estonia, 7·3 per cent. in Lithuania, and as much as 10·9 per cent. in Latvia, as between 1926–30 and 1931–5, and production of wheat was nearly doubled in Estonia between 1926–30 and 1931–5, more than doubled in Latvia. There was also a heavy increase in rye production;[2] and, as will be seen, both countries have practically ceased to import grain in normal years. Agricultural efficiency, too, has increased; in every case but one in the above table there was a rise in the yield per ha. as between 1926–30 and 1931–5. Government assistance, especially in technical education, the provision of seed, and the drainage of marsh land, was largely responsible for this development. 243 433

Progress during these years was similar as regards most of the other principal crops, especially potatoes, where there was a remarkable increase both in production and yield: 244 433

TABLE 34. *Potato Production*

	Area under crop (thousand ha.)				Production (thousand quintals)				Yield (quintals per ha.)			
	Average 1926–30	Average 1931–5	Year 1936	Year 1937*	Average 1926–30	Average 1931–5	Year 1936	Year 1937*	Average 1926–30	Average 1931–5	Year 1936	Year 1937*
Estonia	67	70	74	76	7,570	8,742	10,306	9,160	113·0	124·9	139·3	120·5
Latvia	85	108	120	127	8,458	13,363	16,115	17,817	99·5	123·7	134·3	140·3
Lithuania	141	175	179	184	15,261	20,013	21,106	25,088	108·2	114·4	117·9	136·3

* 1937: provisional figures only.

The cultivation of flax tended to decrease somewhat, owing largely to unfavourable conditions in international markets, particularly to the competition from Russia. The decrease would no doubt have been greater but for the fact that the textile industries of Estonia and Latvia tended to increase their consumption of flax after 1931 in order to save foreign exchange. The figures are shown in Table 35. 248 433

On the other hand, a really important development was the growth in the cultivation of sugar-beet in Latvia and Lithuania. This was greatly encouraged by the establishment of sugar-beet factories 257 249 433

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[1] It will be noted, however, that the harvest of 1936 was well below the 1931–5 average.

[2] In Estonia the Government has encouraged rye-growing since 1930 by purchasing the surplus crop during the autumn at fixed prices.

[248]

TABLE 35. *Flax Production*

(In thousand quintals)

	Average 1926–30	*Average 1931–5*	*Year 1936*	*Year 1937**
Estonia . . .	95	65	87	113
Latvia . . .	196	152	185	257
Lithuania . . .	339	214	288	308

* 1937: provisional figures only.

257 under Government assistance. By the end of 1936 there were two
249 such factories in operation in Lithuania and four in Latvia, and the
483 production of beet sugar had increased in Lithuania to an annual average of 128,000 quintals for 1931–5 as against practically nothing in the preceding five years. In Latvia the increase was from an annual average of 29,000 quintals in 1926–30 to 315,000 quintals in 1931–5.. In 1936 Lithuania's production was 243,000 quintals, and Latvia's 382,000; and imports of sugar in both countries had been reduced to almost negligible figures.

4. DAIRY FARMING AND STOCK-BREEDING

439 It has been seen how during the earlier period dairy farming and
234 stock-breeding existed largely for the export trade. The general
231 decrease of foreign trade as the result of the crisis, therefore, made it especially important for the Baltic States to give further encouragement to this branch of activity. But a large proportion of the exports of Estonia and Latvia had been taken by the United Kingdom and Germany; and it was consequently inevitable that, owing to the trade policies pursued by these countries, particularly the latter, there should be some decrease in production. Lithuania, on the other hand, did not enter the field as a producer on a large scale until just before the beginning of the crisis, and was, therefore, able to profit by the mistakes of the other countries. As the result, there has been an almost spectacular increase in her production both of butter and of bacon; and, whereas her exports of these commodities before 1930 could not be compared with those of the other two countries, she is now by far the largest bacon exporter of the three, though it is true that her exports have recently fallen off. Lithuania also exports more butter now than Estonia, and nearly as much as Latvia. For this the energetic policy pursued by the co-operative system is largely responsible, since the production and marketing both of bacon and butter is entirely in the hands of this organization.

The reason why it has been possible for Lithuania to succeed in spite of the fact that, unlike Estonia and Latvia, she has refused to depreciate her currency, is, perhaps, that the general standard of

living is somewhat lower than in Estonia and Latvia, and the Lithu- 439
anian farmer can therefore accept prices which in the other countries 234
would be considered too low. Further, Lithuania was fortunate in 231
that there had been a great increase of her bacon exports to the United Kingdom just before the bacon quota was imposed in that country, with the result that the maximum of her bacon exports to Great Britain was fixed at a substantially higher figure than for the other two countries. Moreover, in recent years Lithuania's exports of bacon and butter have come to occupy a higher percentage of the country's total exports than in Estonia and Latvia, and it is consequently all the more important for the Government to foster the production and export of these commodities by subsidies, even if it means incurring a loss expressed in terms of national currency. The developments of the past few years are shown in the following tables:

TABLE 36. *Butter*

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(*a*) EXPORTS TO ALL COUNTRIES
(*In thousand metric tons*)

	Estonia	*Latvia*	*Lithuania*
Annual average 1927–9. . .	11·2	12·9	2·9
Year 1930 . . .	14·1	18·4	7·4
„ 1931 . . .	14·4	18·7	8·7
„ 1932 . . .	12·5	18·6	9·9
„ 1933 . . .	9·2	15·6	9·6
„ 1934 . . .	10·1	15·7	9·7
„ 1935 . . .	10·8	16·8	12·2
„ 1936 . . .	11·0	17·3	14·6
„ 1937 . . .	13·2	19·2	15·1

231

(*b*) TOTAL OF COWS
(*In thousands*)

	Estonia	*Latvia*	*Lithuania*
Year 1930 . . .	416	728	696
„ 1936 . . .	446*	880	763

* 1937.

TABLE 37. *Bacon*

253
439

(*a*) EXPORTS TO ALL COUNTRIES.
(*In thousand metric tons*)

	Estonia	*Latvia*	*Lithuania*
Annual average 1927–9. . .	1·9	2·1	0·2
Year 1930 . . .	1·2	1·6	4·1
„ 1931 . . .	3·1	1·6	18·2
„ 1932 . . .	3·9	1·0	25·1
„ 1933 . . .	3·3	2·3	21·4
„ 1934 . . .	2·6	2·3	12·7
„ 1935 . . .	2·4	1·6	8·6
„ 1936 . . .	2·2	1·9	10·3
„ 1937 . . .	2·1	1·9	9·9

231 (*b*) TOTAL OF PIGS[1]
(*In thousands*)

	Estonia†	*Latvia*	*Lithuania*
Year 1913	275	557	1,358
„ 1930	290	523	1,136
„ 1936	379*	674	1,210

† 1913–14. * 1937.

439 More than half of the butter exports from these three countries, and
234 practically all the bacon exports, are now taken by the United
231 Kingdom.[2] It seems to follow that the United Kingdom is gradually assuming towards the Baltic States responsibilities very similar to those she has already assumed in the case of Denmark. As will be seen, the sterling received for the Baltic States' exports of bacon and butter is of vital importance to the exchange position.

5. MANUFACTURING INDUSTRY

433 The principal change in the industrial system since the crisis has
471 been the need, already mentioned, to save foreign exchange by manufacturing inside the country as far as possible what was formerly imported. The policy has been pushed furthest, largely at the instigation of the State, in Latvia and Estonia, for in these two countries the industrial apparatus required for such an experiment was to a considerable extent already in existence. In Lithuania, however, this was not the case, and industrial self-sufficiency has consequently made far less progress than in the other two countries, although when and where it has been possible advances have been made in this direction. But, in each case, the degree to which this policy can succeed is strictly limited by the fact that all three countries lack not only the essential raw materials of industry such as coal, iron, non-ferrous metals, rubber, cotton, and wool, but also the capital required for attempting the expensive process of manufacturing substitutes.

The progress made by industrialization in Estonia and Latvia can best be judged from Table 38 opposite.

464 The increase of workers employed in the textile trade, in which
438 some degree of self-sufficiency is perhaps easiest to achieve, will be noted. The increase of workers employed in 'other' industries in Estonia is due largely to the activity of the shale industry, since at the end of 1937 the extractive industries were employing about 4,500 persons; this also accounts largely for the increase in 'chemicals'. Included in 'other industries' are also nearly 3,000 persons engaged

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[1] Pre-war figures for Estonia and Latvia relate to a somewhat smaller area than that of the present States.

[2] Figures are given in footnote on p. 156.

TABLE 38. *Number of Workmen Employed in Manufacturing Industries*[1] 464 438

Industries	*Estonia* (*enterprises employing 20 or more workers only*)		*Latvia* (*all workers*)	
	1926	*1937 (end)*	*1926*	*1937 (end)*
Textiles	8,919	12,024	5,935	18,394
Woodworking	4,389	3,567	10,061	12,758
Metallurgical	3,756	6,384	8,408	19,541
Paper and printing	3,340	3,909	5,132	6,801
Foodstuffs	1,916	3,284	8,543	16,648
Chemical	835	2,831	3,433	5,182
Other	2,683	12,584	8,160	25,655
Total	25,849	44,583	49,672	104,979

in construction. In Latvia the increase in 'other' industries is chiefly due to the growth of activity in the clothing trade, employing over 13,000 at the end of 1937, and in building.

So far as the volume of industrial production is concerned, some 433
indication as to developments in these two countries can be obtained from the following figures:

TABLE 39. *Indices of Industrial Production*

(1930 = 100, average for year)

	All commodities		*Capital goods*		*Consumption goods*	
	Estonia	*Latvia*	*Estonia*	*Latvia*	*Estonia*	*Latvia*
1930	100·0	100·0	100·0	100·0	100·0	100·0
1931	92·0	82·0	92·8	83·0	91·3	80·1
1932	79·3	75·7	78·1	53·4	78·4	78·1
1933	83·0	102·7	81·2	63·8	81·5	109·3
1934	97·7	119·8	106·3	83·3	91·5	126·9
1935	107·6	126·1	114·9	88·0	101·6	134·3
1936	121·6	131·5	133·0	103·7	112·5	138·3
1937	140·5	147·8	174·1	121·0	119·5	151·3

Estonia. Developments in Estonia's manufacturing industry since 437
1930 were subject to the general considerations mentioned above. 457
Additional stimulus to industry was given by the introduction of severe import restrictions in the autumn of 1931 and of the control of the foreign exchanges. Moreover, the abandonment of the gold standard in June 1933 made it cheaper to buy raw materials abroad and to manufacture the finished article in the country than to import finished goods; and this greatly increased the development of industry. Finally, the increase in the purchasing power of the agricul- 178
tural population, owing to the higher prices prevailing since 1935, led

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[1] For the sources for the 1926 figures see note to Table 21, p. 117; the figures for 1937 are taken from *Eesti Statistika* for February 1938, and *Mēneša Biļetens* for March 1938.

Estonia
Latvia

178 to something like boom conditions during 1936 and 1937–8, when a shortage of labour and a movement towards higher wages, attracting workers from agriculture, began to be felt. The progress of industrialization during these years has largely been due to private initiative. But, in its initial *stages, the State gave indirect* encouragement by the imposition of import and currency restrictions, and in recent years has begun to play a more active part.

178 438 Industrial development has chiefly consisted in the further employment of plant already in existence, especially in the textile industry, where substantial progress was made on the lines already mentioned,[1] particularly in the use of home-grown flax. Considerable progress also was made in the plywood industry, mainly as the result of the building boom in Great Britain. As already stated, there was a noteworthy expansion in the shale and ancillary industries. Since 1930 plant has been greatly extended, and, by the end of 1936, the exploitation of Estonia's shale resources had reached a point where [439] it did much to compensate for the lack of other fuel.[2] It is noteworthy that, whereas the increase of industrialization in Latvia led to an increase of coal and coke imports from 4·2 per cent. of the total annual average value of imports in 1928–30 to 10·8 per cent. in 1936, in Estonia, where the progress of industrialization was nearly as great, the figure remained stable at about 1·4 per cent.

New industries also have been started since 1930. The production of artificial horn, which is made from milk, has assumed substantial proportions, and exports have steadily risen from 24 tons in 1928 to 751 tons in 1937. In the autumn of 1936 a factory was begun for the [475] manufacture of sulphate of cellulose. Negotiations are at present in progress for the erection of a plant for making superphosphate, which is to use the large deposits of phosphate near Tallinn, one of the few important mineral deposits in the Baltic States other than shale.[3] In this the State is, apparently, taking a direct interest. The State has also taken a direct interest in a brick-making concern founded in 1936.

471 433 *Latvia*. In general, however, the interest of the State, direct and indirect, is far greater in Latvian industry. This is a tendency which can be dated fairly accurately from the coming of the totalitarian régime in 1934. Before that date developments in industry since 1930 had been similar to those in Estonia. The first effect of the crisis was to restrict very severely the activity of the industries

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[1] See above, p. 116.

[2] According to an article by the Estonian Minister in London in *The Banker* for March 1938, the output of oil-shale increased between 1920 and 1930 from 48,000 to 496,000 tons, and rose to 1,100,000 tons in 1937. Similarly, the production of crude oil increased from 10,000 tons in 1930 to 110,000 tons in 1937.

[3] *Die Börse* (Vienna), January 4, 1937; *The Banker*, March 1938.

working for export, especially the timber and plywood industries. 470
This was followed by a general decrease of activity throughout the 423
industries supplying the home trade, such as the textile industry, owing to the fall in agricultural purchasing power arising out of the
*decrease of exports. This movement was fu*rther accelerated by the [452]
credit crisis of 1931 and the moratorium on banking withdrawals; and by 1932 the monthly average total of unemployed was well over 14,000.[1]

Meanwhile, in the autumn of 1931 there was a general increase in 178
Customs duties, and a system of import quotas and exchange restric- 453
tions was introduced. All these measures greatly increased the 457
tendency towards industrial self-sufficiency, which now became the acknowledged policy of the Government. There was consequently a considerable increase in the activity of the consumption industries, especially the textile sections, which, as in Estonia, increased their consumption of home-grown flax. This led in turn to an increase of activity in the production goods industries. At this stage the export industries began to experience a recovery, and by the end of 1934 the building boom in the United Kingdom began to have an appreciable effect on the plywood industry and saw-mills. There was also a marked recovery in the paper and cellulose industry.

Up to this point industrial expansion had followed the normal 458
course of recovery from a severe recession. This recovery had taken 471
place for the most part within the limits of the existing industrial 185
apparatus. Few fresh industries had been started, and the relations existing between industry and the State before 1930 had, for the most part, been maintained. The advent of the totalitarian system in 1934, however, has been followed by an entirely new industrial policy. This policy does not consist merely in an attempt to attain the greatest degree of self-sufficiency. Its purpose would seem rather to be the introduction of a form of State capitalism or, at any rate, a system in which the State is able to exert direct control over the industrial organization. It will be seen how the State, by its relation to the co-operative system, is able to exert a considerable degree of control over agriculture and dairy farming. This, however, is a policy which the State is generally compelled to pursue in a poor country of small farmers. That such a policy should be applied to a relatively large industrial organization, which had hitherto relied on private enterprise, was a considerable innovation.

The policy began to be put into effect first through the *Latvijas* 471
Kreditbanka,[2] a commercial bank formed by the State in 1935. 452
By the purchase of majority shareholdings, this organization soon 655

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[1] i.e. demands for work according to the official returns.

[2] On this. see further pp. 184–5.

471 acquired a considerable interest in industries of a very varied
652 nature, in determining the policy of which it is naturally instigated
655 by the desires of the State. During 1936 and 1937, however, the State
itself has been acquiring a direct shareholding interest in a number
of concerns, of which may be mentioned a large metallurgical works
in Riga, and a large brick factory. Even in the timber industry the
Government is in a position to control auction sales, and is itself an
exporter. Almost the only branch of industry which has so far
remained free from the direct or indirect influence of the State is the
textile manufacturing industry.[1] How far this policy will be pursued
[185] it is impossible to say. The President stated in April 1937 that
the Government wished the entire Latvian population to participate
in the progress of industry by taking a direct shareholding
interest, and appealed to the public to purchase shares in the new
State brickworks, even suggesting that the State might guarantee
dividends.

433 *Lithuania*. Developments in Lithuanian industry since the crisis
457 have been on the whole inconsiderable. Though severe restrictions
were placed on imports in 1935, the existing industrial system was
too small to bear the strain of a thoroughgoing policy of self-sufficiency,
and, in any case, the lack of foreign exchange and foreign
credit has prevented the import of sufficient plant to make it
possible. Nevertheless, there has been some expansion in the textile
industry since 1930, and in 1936 there were as many as 5,000 persons
employed in this branch, though the figure includes those employed
in Memel. The result has been some decrease in the import of textile
piece goods and an increase in the import of yarns and raw materials.
[477] A further development of some importance has been the growth of
trusts and combines, mainly in the foodstuffs and brewing industries,
which have arranged for the regulation of output and the fixing of
prices.[2]

II. FOREIGN TRADE AND BALANCE OF PAYMENTS, 1931–7

1. General Movement

439 It has been seen that the foreign trade of Estonia and Latvia had already begun to decrease before 1931. With the onset of the financial crisis of that year, the decrease in the trade of all three countries rapidly gathered momentum. The value of exports (expressed in Swiss francs) did not finally reach their lowest level until 1933 for

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[1] The State, however, has recently taken an interest in a newly formed company concerned with the production of woollen textiles (*Frankfurter Zeitung*, August 21, 1937). It may be added that the State is interested also in shipping; see below, Appendix II, p. 191.

[2] Details are given in D.O.T.: *Economic Conditions in Lithuania, November, 1935*, publ. 1936, pp. 15–16.

Estonia and Latvia, and until 1934 for Lithuania. By this point the value of exports for the two former countries was less than a third of the average for 1928–30, for Lithuania less than one-half. The figures are as follows: 439

TABLE 40. *Foreign Trade: Special Trade, excluding Bullion and Specie*

(*Figures in millions*)

(i) *Values expressed in national currency*

	Estonia (*kr.*)		*Latvia* (*lats*)		*Lithuania* (*lits*)	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
Yearly average 1928–30	113·5	117·3	261·1	321·9	306·7	303·1
Year 1931	71·0	61·1	163·8	176·3	273·1	277·7
„ 1932	42·6	36·7	96·5	84·2	189·1	166·5
„ 1933	45·6	39·0	81·5	91·0	160·2	141·5
„ 1934	69·0	55·2	85·3	94·7	147·2	138·1
„ 1935	80·1	68·7	98·8	101·1	152·2	126·7
„ 1936	83·2	86·8	138·4	121·7	190·5	154·2
„ 1937	106·0	111·1	260·9	231·2	208·3	212·7
A. Percentage fall between 1928–30 average and lowest point	62·5%	68·7%	68·8%	73·8%	52·0%	58·2%
B. Percentage rise from lowest point	148·8%	202·7%	220·4%	174·7%	41·6%	67·9%

(ii) *Values expressed in Swiss francs*

	Estonia		*Latvia*		*Lithuania*	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
Yearly average 1928–30	157·4	162·6	261·1	321·9	158·7	156·8
Year 1931	96·5	84·9	163·8	176·3	141·5	143·8
„ 1932	59·2	51·0	96·5	84·2	98·0	86·2
„ 1933	48·2	42·0	81·5	91·0	83·0	73·3
„ 1934	59·5	47·6	85·3	94·7	76·2	71·5
„ 1935	66·9	57·4	96·7	101·1	78·8	65·6
„ 1936	70·3	73·3	118·0	105·7	98·7	79·9
„ 1937	89·5	93·3	156·7	138·8	107·9	110·1
A. Percentage fall between 1928–30 average and lowest point	69·4%	74·2%	68·8%	73·8%	52·0%	58·2%
B. Percentage rise from lowest point	85·7%	122·1%	92·3%	64·9%	41·6%	67·9%

The reasons for the decrease do not require detailed consideration. The main factor was the fall of prices, though the effect of the crisis [435] on the two chief markets of the Baltic States, the United Kingdom and Germany, was almost equally important. For example, building in these two countries was greatly reduced, and their timber imports fell severely. Moreover, the policy of the United Kingdom

439 led to a reduction of her imports of bacon, and butter exports to that country had to be encouraged accordingly in order to make good the loss of free exchange.[1] What was perhaps of greater significance to the Baltic States than the cause of the fall of exports was its effect on imports. For, in the new conditions which now prevailed, it was vitally necessary, not only to reduce the value of imports *pari passu* with that of exports, but to achieve an export surplus in order to remedy the shortage of foreign exchange. This was the purpose of the numerous tariff and import quotas introduced during these years. The result of these efforts is shown below:—

TABLE 42. *Balance of Visible Trade*

(*a*) *Amount in million Swiss francs.* (*b*) *Value of exports expressed as a percentage of that of imports.*

	Estonia		*Latvia*		*Lithuania*	
	(*a*)	(*b*)	(*a*)	(*b*)	(*a*)	(*b*)
Yearly average 1928–30	− 5·4	97	−60·6	81	+ 1·9	101
Year 1931	+13·6	116	−12·5	93	− 2·3	98
„ 1932	+ 8·2	116	+12·3	114	+11·6	114
„ 1933	+ 6·2	117	− 9·5	90	+ 9·7	113
„ 1934	+11·9	125	− 9·4	90	+ 4·7	107
„ 1935	+ 9·5	117	− 2·4	98	+13·2	120
„ 1936	− 3·0	96	+12·3	114	+18·8	124
„ 1937	− 3·8	96	+17·9	113	− 2·2	98

As can be seen, the policy was highly successful in that the proportion of imports to exports was greatly reduced. In a wider sense this statement would have to be modified considerably. For, as was seen in the preceding section, this policy has involved certain radical changes in the productive system of these States, the ultimate advantages of which may be open to question.

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[1] TABLE 41. *United Kingdom Imports of Bacon and Butter 1928–37.*

(*In thousand £*)

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Year	*Imports of bacon from:*			*Imports of butter from:*		
	Estonia	*Latvia*	*Lithuania*	*Estonia*	*Latvia*	*Lithuania*
1928 . . .	154	559	7	628	397	11
1929 . . .	126	276	23	893	650	103
1930 . . .	94	196	252	641	332	134
1931 . . .	163	77	877	667	210	205
1932 . . .	208	46	1,181	338	450	263
1933 . . .	196	139	1,201	266	487	332
1934 . . .	190	164	926	350	421	403
1935 . . .	175	125	623	424	697	634
1936 . . .	173	145	758	493	827	884
1937 . . .	167	154	774	781	1,044	976

So far as Estonia and Latvia are concerned, there has been a noteworthy increase in the last three years both in value and in volume, the recovery in volume beginning in 1933. The volume of Lithuania's foreign trade, also, has recovered somewhat from that of the worst years:— 439

TABLE 43. *Volume of Foreign Trade*

(In thousand metric tons)

	Estonia		*Latvia*		*Lithuania*	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
Yearly average 1928–30	474	489	1,284	1,421	569	712
Year 1931	407	372	774	1,050	368	743
" 1932	251	233	657	734	331	624
" 1933	322	219	954	813	463	628
" 1934	521	285	1,042	919	525	610
" 1935	478	296	1,051	1,049	490	713
" 1936	456	384	1,080	1,104	540	780
" 1937	516	432	2,016	1,224	468	936

In Estonia and Latvia the value of exports and imports fell by almost exactly similar proportions. The subsequent increase in the value of exports, also, has been of similar proportions. As regards that of imports, however, this has not been the case. The reason is that, on the one hand, it has been the policy of Latvia to eliminate the large import surpluses of the years before 1930, and that, on the other, Estonia's industrial policy has led to an extraordinary increase in imports in 1936 and 1937. The reasons for the recovery in general are to be ascribed to the rise of prices since 1933; in particular, to the large imports of timber into, and to the securing of a market for bacon and dairy produce in, the United Kingdom by the trade agreements of 1934. There can be little doubt, also, that the abandonment of the gold standard in 1933 greatly stimulated Estonia's foreign trade, and placed her for a time at an advantage over the two other countries. Movements in Lithuania's trade were rather different; the decrease was smaller, the lowest point was reached later, and the recovery has been slower, than in the other two countries. This difference is, perhaps, due to the fact that it was not necessary to introduce a managed currency and the consequent exchange restrictions until considerably later than in Estonia and Latvia, while the slowness of recovery arises from the repercussions of the Memel dispute with Germany in 1935. In 1937, however, there was an appreciable increase in her foreign trade though, for the first time since 1931, there was an import surplus.

Finally, mention must be made of a development which has 439
greatly increased in importance since 1930, namely, the tendency 491

439 towards the centralization of the chief exports in the hands of the 471 State or of organizations closely connected with the Government. This movement is no new thing; in Latvia a flax monopoly was instituted shortly after the War, and in all three countries the predominant position occupied by the co-operative system in the production of bacon and butter tended to give that system (particularly in Lithuania[1]) a predominant position also in the export of the commodities concerned. But its progress has been greatly accelerated since 1930 by the vital need to encourage exports in order to obtain the resulting foreign exchange, and, since 1933, by the advent of semi-authoritarian régimes in Estonia and Latvia. The tendency has [655] been most marked in Estonia. During 1936 and the early part of 1937, the Government established autonomous State organizations which were given a monopoly of the export of butter, eggs, pigs, and bacon.[2] In Latvia the system of granting actual monopolies of export has not been much employed in recent years except in the case of flax, but since the export of most of Latvia's agricultural products was dependent on subsidies from the State, at any rate until the abandonment of the gold standard, the control which the State can exert over the export trade is considerable. It is also clear that since, in all three countries, the State actually owns a large proportion of the forests, the State is able to control the export of timber.

2. PRINCIPAL COMMODITIES

439 Tables are given on pp. 160–3 showing the value (expressed in Swiss francs) of the principal exports and imports in 1932, one of the worst of the crisis years, and the last two years for which comparable figures are available. The annual average for 1928–30 is given for purposes of comparison.

Changes in Nature of Imports. The most significant change during the past six years has been in the nature of imports, and arises, as already mentioned, from the attempt of these States to achieve a [256] greater degree of self-sufficiency. Before the crisis about 14 per cent. of the imports of Estonia and Latvia consisted of grain and flour. Since 1931 the efforts made in both countries to increase agricultural production have been so successful that grain imports have been very substantially reduced.[3] Latvia, which formerly imported more grain, both relatively and absolutely, than Estonia, has even

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[1] For details of the Government's control of foreign trade in Lithuania as operated through the co-operative system, see D.O.T.: *Economic Conditions in Lithuania, November 1935,* publ. 1936, p. 3.

[2] These monopolies are exercised by the co-operative societies *Võieksport* (butter), *Munaeksport* (eggs), and *Lihaeksport* (pigs and bacon). See *Estonia: Population, Cultural and Economic Life*, ed. A. Pullerits, Tallinn 1937, pp. 132–6.

[3] Owing to the partial failure of the 1936 harvest, Estonia was, however, compelled to import small quantities of grain during that year and 1937.

been able to export during recent years. The same applies to sugar, 439
at any rate as regards Latvia and Lithuania. By 1936 Latvia was [257]
able to dispense with sugar imports entirely, while in Lithuania imports were reduced to 0·4 per cent. of the total value of imports. The corollary to the increase of agricultural production is seen in the increase of imports of chemicals, largely consisting of artificial manure, and of agricultural machinery.

The other more important result of the policy of self-sufficiency 439
is the increase of industrialization. The effect of this movement 185
is shown in the decrease of manufactured textile imports in all 248
three countries, and the general increase of imports of machinery and iron and steel goods proportionately to the total. It is noteworthy, also, that in Latvia, and to a smaller extent in Estonia, there has been an increase in the proportion of imports of raw cotton and wool, and other textile fibres such as hemp and jute; even in Lithuania, by far the least industrialized country of the three, imports of raw cotton and wool amounted to 3·4 per cent. of the total in 1936 as compared with an average of under 1 per cent. in 1928–30. The increase in the proportion of coal and coke imports
into Latvia, also, will be noted. Lastly, it may be mentioned that [651]
the abandonment of the gold standard by Latvia in September 1936 was followed by the reduction of Customs duties on a number of imports such as petroleum, herrings, and rice, which was dictated principally by the desire to prevent an immediate rise in the cost of living.

Changes in Exports. The economic structure of the Baltic States 439
is not such as to facilitate important changes in the nature of their export trade over a short period. Timber, butter, bacon, and flax continued to be the staple articles of export, though there was in Estonia and Latvia a slight tendency for the proportionate value of these exports to be rather smaller than before the crisis.[1] In both countries, however, there was an increase in the proportion of flax exports, and of paper-making materials. There was also a further decrease in the proportion of exports of manufactured goods. Most of the manufactured articles exported from Estonia and Latvia before the crisis went to the neighbouring countries, which, after 1931, severely restricted their imports of such goods. The most remarkable changes are, perhaps, in Lithuania's exports, namely, the increase in the proportion of butter, bacon, and grain exports,

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[1] In October 1936 Latvia decided to adhere to the European Timber Exporters' Conven- 648
tion. The purpose of this body, formed in November 1935, is to adjust supplies to demand at 439
a remunerative level of prices. The other members are Austria, Czechoslovakia, Finland, Poland, Rumania, Sweden, the U.S.S.R., and Yugoslavia. For 1937 it was decided to limit exports from these countries to 4,000,000 standards, of which Latvia's share was to be 127,000 standards. During 1938 there is to be a reduction of 15 per cent. in the quota.

1: Anonymous U-4 (no date)1938 RBI Baltic States RBI

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TABLE 44. *Value of Principal Commodities Exported*

(i) *Values (in million Swiss francs)*

	Estonia				*Latvia*				*Lithuania*			
	Average 1928–30	*Year 1932*	*Year 1935*	*Year 1936*	*Average 1928–30*	*Year 1932*	*Year 1935*	*Year 1936*	*Average 1928–30*	*Year 1932*	*Year 1935*	*Year 1936*
1. *Foodstuffs:*												
Butter	46·3	21·6	13·6	14·0	56·3	31·0	18·5	21·6	17·0	21·6	12·6	18·3
Meat and bacon*	4·9	3·5	3·9	4·2	2·2	0·7	1·6	2·3	9·2	33·2	11·1	13·6
Live stock (including poultry)	1·0	†	2·6	4·1	†	†	†	†	28·8	6·6	5·5	10·8
Eggs	†	†	2·2	2·1	†	†	†	†	6·8	3·2	1·1	2·6
Grain	†	†	2·3	1·6	†	†	9·0	4·5	3·1	0·3	9·0	6·3
Other foodstuffs	9·2	5·5	3·6	3·7	5·0	2·1	3·9	4·1	9·3	3·2	5·2	6·0
2. *Other raw materials and semi-manufactures:*												
Timber (including sawn, veneers, &c.)	28·6	6·3	10·4	10·2	94·2	27·2	34·0	41·4	41·2	18·2	16·2	16·6
Paper-making materials‡§	8·6	7·7	7·1	6·1	3·8	1·1	2·2	2·6	1·2	0·4	0·2	0·6
Hides and skins (including leather)	3·7	0·4	1·1	1·7	8·5	1·2	2·6	3·9	7·1	1·6	2·1	1·9
Flax	10·7	2·3	5·0	6·7	16·7	5·1	8·6	14·3	17·0	4·7	7·3	12·9
Seeds	0·7	‖	0·1	0·1	7·3	2·3	3·4	4·5	7·6	3·1	4·4	5·6
3. *Manufactured goods:*												
Textiles	26·7	6·4	7·9	7·9	13·3	2·6	2·9	3·2	‖	‖	‖	‖
Paper	9·4	1·7	1·6	1·5	6·6	1·7	2·2	2·6	‖	‖	‖	‖
Rubber boots and shoes	‖	‖	‖	‖	11·4	3·3	0·6	0·8	‖	‖	‖	‖
Machinery and vehicles	1·6	0·8	0·6	0·4	12·3	12·3	0·3	0·3	‖	‖	‖	‖
Other unspecified exports	6·0	3·0	4·9	6·0	23·5	5·9	8·5	11·9	10·4	1·7	4·1	3·5
Total	157·4	59·2	66·9	70·3	261·1	96·5	98·7	118·0	158·7	98·0	78·8	98·7

TABLE 44 (*continued*)

(*ii*) *Percentages*

	Estonia			*Latvia*			*Lithuania*		
	Average 1928–30	*Year 1935*	*Year 1936*	*Average 1928–30*	*Year 1935*	*Year 1936*	*Average 1928–30*	*Year 1935*	*Year 1936*
1. *Foodstuffs:*									
Butter	29·4	20·3	19·9	21·6	18·7	18·3	10·7	16·0	18·5
Meat and bacon*	3·1	5·9	6·0	0·8	1·9	1·9	5·8	14·1	13·8
Live stock (including poultry)	0·6	3·9	5·9	†	†	†	18·1	7·0	11·0
Eggs	†	3·3	3·0	†	†	†	4·3	1·4	2·6
Grain	†	3·5	2·3	†	9·1	3·8	1·9	11·4	6·4
Other foodstuffs	5·8	5·5	5·3	1·9	3·9	3·5	5·8	6·6	6·1
2. *Other raw materials and semi-manufactures:*									
Timber (including sawn, veneers, &c.)	18·2	15·5	14·6	36·1	34·5	35·1	25·9	20·6	16·8
Paper-making materials‡§	5·5	10·6	8·7	1·4	2·3	2·2	0·8	0·3	0·6
Hides and skins (including leather)	2·4	1·6	2·4	3·3	2·9	3·3	4·5	2·6	1·9
Flax	6·8	7·5	9·5	6·4	8·8	12·1	10·7	9·2	13·1
Seeds	0·4	0·9	0·1	2·9	3·4	3·8	4·8	5·6	5·7
3. *Manufactured goods:*									
Textiles	16·9	11·6	11·2	5·1	2·9	2·7	‖	‖	‖
Paper	6·0	2·3	2·1	2·5	2·2	2·2	‖	‖	‖
Rubber boots and shoes	‖	‖	‖	4·4	0·6	0·7	‖	‖	‖
Machinery and vehicles	1·0	0·9	0·6	4·7	0·3	0·3	‖	‖	‖
Other unspecified exports	3·9	7·4	8·5	8·9	8·5	10·1	6·7	5·2	3·5
Total	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0

The figures in the tables for individual items are probably not strictly comparable as between country and country, owing to divergencies of classification, but they do afford a rough basis for comparison.

* Latvia: bacon only. † Included in 'other foodstuffs'. ‡ Latvia: wood-pulp only. § Lithuania: rags only.
‖ Included in 'other unspecified exports'.

1: Anonymous U-4 (no date)1938 RBI Baltic States R62

1a Anonymous U-4 (no date)1938 RBI Baltic States 161

TABLE 45. *Value of Principal Commodities Imported*

(i) Values (in million Swiss francs)

	Estonia				*Latvia*				*Lithuania*			
	Average 1928–30	*Year 1932*	*Year 1935*	*Year 1936*	*Average 1928–30*	*Year 1932*	*Year 1935*	*Year 1936*	*Average 1928–30*	*Year 1932*	*Year 1935*	*Year 1936*
1. *Manufactured articles:*												
Textiles	18·3	7·8	6·2	7·0	54·0	12·7	13·1	13·1	31·0	15·4	12·3	17·1
Iron, steel, and metal goods	13·7	5·6	8·3	10·7	24·3	8·0	10·4	11·0	13·3	9·1	7·0	9·0
Agricultural machinery	3·5	0·4	1·3	2·2	4·3	0·8	2·1	3·2	2·2	1·3	1·6	1·3
Other machinery (including cars)	17·2	5·5	8·2	13·1	34·4	7·8	11·9	15·4	13·1	8·1	6·9	8·3
Glass	0·9	0·4	0·3	0·4	*	*	*	*	2·0	1·2	1·0	1·2
Paper and manufactures thereof	2·9	1·4	1·1	1·4	4·1	1·4	1·2	1·2	3·8	2·7	1·0	1·4
Rubber boots and shoes	1·9	0·8	0·6	0·7	2·8	*	0·9	1·2	3·9	2·5	0·5	0·5
Chemicals, dyes, and paints	8·3	6·4	6·2	6·6	18·6	8·6	11·1	10·2	4·3	3·6	4·4	4·1
Other unspecified mineral products	2·5	1·0	1·1	1·5	2·0	*	*	*	1·3	1·3	0·8	0·9
Total manufactured articles	69·2	29·3	33·3	43·6	144·5	39·3	50·7	55·3	74·9	45·2	35·5	43·8
2. *Foodstuffs:*												
Grain and flour	23·3	0·8	0·5	2·1	48·1	2·5	—	—	†	†	†	†
Sugar	8·2	2·9	2·1	2·9	12·4	2·7	—	—	8·9	2·4	0·3	0·3
Herrings	3·4	0·2	0·6	0·7	6·9	0·9	1·7	1·8	5·0	2·2	1·1	1·7
Other unspecified foodstuffs	11·3	2·1	1·9	2·6	21·5	5·1	5·1	4·1	11·3	4·2	2·7	2·8
3. *Other imports:*												
Petroleum	2·3	1·0	0·8	1·0	6·8	3·7	3·3	3·2	5·0	1·7	1·4	1·3
Other oils and rubber‡	5·5	1·9	1·8	2·3	4·7	2·7	1·5	1·6	*	2·2	1·6	1·8
Hides, skins, and leather	5·7	1·3	2·2	2·3	13·1	2·5	2·6	2·8	5·4	2·1	1·4	2·1
Manure	3·6	1·4	1·6	1·6	3·4	2·2	3·7	3·2	7·7	3·5	2·4	2·9
Coal and coke§	2·3	0·8	0·7	1·0	13·6	6·1	9·8	11·4	5·7	4·4	3·1	3·9
Cotton (raw)	14·2	3·5	5·7	6·1	7·1	2·1	5·2	5·5	*	*	1·2	1·4
Wool (raw)	1·7	0·8	1·3	1·3	3·0	1·7	1·4	1·6	*	*	1·4	1·3
Hemp, jute, and other textile fibres	2·0	0·8	0·8	0·8	3·6	0·5	1·9	2·2	*	*	*	*
Tobacco	1·6	0·7	0·8	0·9	4·2	3·2	2·3	2·3	1·7	1·2	0·5	0·8
Other unspecified imports	8·5	3·5	3·3	4·1	29·0	9·0	11·9	10·7	31·2	17·1	13·0	15·8
Grand Total	162·8	51·0	57·4	73·3	321·9	84·2	101·1	105·7	156·8	86·2	65·6	79·9

TABLE 45 (*continued*)

(*ii*) *Percentages*

	Estonia			*Latvia*			*Lithuania*		
	Average 1928–30	*Year 1935*	*Year 1936*	*Average 1928–30*	*Year 1935*	*Year 1936*	*Average 1928–30*	*Year 1935*	*Year 1936*
1. *Manufactured articles:*									
Textiles	11·3	10·8	9·5	16·7	13·0	12·4	20·1	18·8	21·3
Iron, steel, and metal goods	8·4	14·4	14·6	7·5	12·3	10·4	8·5	10·6	11·1
Agricultural machinery	2·1	2·2	3·0	1·3	2·1	3·0	1·4	2·5	1·6
Other machinery (including cars)	10·6	14·2	17·9	10·7	11·7	14·6	8·4	10·7	10·3
Glass	0·6	0·5	0·5	*	*	*	1·3	1·6	1·5
Paper and manufactures thereof	1·8	1·9	1·9	1·3	1·2	1·1	2·4	1·5	1·7
Rubber boots and shoes	1·2	1·0	0·9	0·9	0·9	1·1	2·5	0·7	0·6
Chemicals, dyes, and paints	5·1	10·8	9·0	5·8	11·0	9·7	2·7	6·7	5·0
Other unspecified mineral products	1·5	2·0	2·1	0·6	*	*	0·8	1·2	1·1
Total manufactured articles	42·6	57·8	59·4	44·8	52·2	52·3	48·1	54·3	54·2
2. *Foodstuffs:*									
Grain and flour	14·3	0·9	2·8	14·9	—	—	†	†	†
Sugar	5·0	3·7	3·9	3·8	—	—	5·7	0·5	0·4
Herrings	2·1	1·0	1·0	2·1	1·6	1·7	3·2	1·7	2·1
Other unspecified foodstuffs	6·9	3·3	3·6	6·7	3·0	3·9	7·2	4·2	3·5
3. *Other imports:*									
Petroleum	1·4	1·4	1·3	2·1	3·3	3·0	3·2	2·2	1·7
Other oils and rubber‡	3·4	3·1	3·3	1·5	1·5	1·5	*	2·4	2·2
Hides, skins, and leather	3·5	3·8	3·2	4·1	2·5	2·7	3·4	2·2	2·6
Manure	2·2	2·9	2·2	1·1	3·6	3·0	4·9	3·7	3·6
Coal and coke§	1·4	1·3	1·3	4·2	9·7	10·8	3·6	4·8	4·0
Cotton (raw)	8·7	10·0	8·3	2·2	5·2	5·2	*	1·8	1·8
Wool (raw)	1·0	2·2	1·8	0·9	1·4	1·5	*	1·6	1·6
Hemp, jute, and other textile fibres	1·2	1·4	1·1	1·1	1·8	2·1	*	*	*
Tobacco	1·0	1·4	1·2	1·3	2·3	2·2	1·1	0·8	1·1
Other unspecified imports	5·3	5·8	5·6	9·2	11·9	10·1	19·6	19·8	20·4
Grand Total	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0

The figures in the tables for individual items are probably not strictly comparable as between country and country, owing to divergencies of classification, but they do afford a rough basis for comparison.

* Included in 'other unspecified imports'. † Included in 'other unspecified foodstuffs'. ‡ Lithuania: other mineral oils only.
§ Lithuania: coal only.

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439 already mentioned. In 1936 Lithuania's bacon exports to Great Britain were considerably more than twice as large as those of the other two countries. Her butter exports to Great Britain, also, were larger than those of Estonia and Latvia. On the other hand, shipping difficulties and the fact that, in this case, her marketing organizations cannot be compared with those of Estonia and Latvia, have prevented her from obtaining a similar share in exports of timber to Great Britain. Lithuania's timber exports were proportionately less in 1936 than before the crisis. The decrease in the proportion of live stock and poultry exports between 1928–30 and 1935 is largely due to the German embargo on imports from Lithuania during 1935 as a result of the Memel dispute.

3. Distribution of Foreign Trade

The chief developments can be seen from Table 46 opposite.

Anglo-German Rivalry. The principal feature of interest during these years was the struggle between Germany and the United Kingdom for markets in this area. In this the United Kingdom was helped by the fact that (in spite of the abandonment of the gold standard), sterling was, and the Reichsmark was not, a convertible currency. It consequently became vitally important, from a monetary point of view, that the Baltic States should increase their exports to the United Kingdom by every means in their power, or at any rate prevent them from falling off as far as possible. This increased the bargaining power of the United Kingdom when the time came to negotiate commercial agreements with these countries. On the other hand while it was, of course, important to maintain exports to Germany as far as possible, the Baltic States, particularly Estonia and Latvia, had little or no interest in accumulating an export surplus with Germany, since in recent years[1] trade with that country has been conducted under clearing agreements, and any export surplus which might arise would not be at their full disposal. The same applies also to Lithuania's trade with Germany since August 1936. Details as to trade with the United Kingdom and Germany are given in Tables 47 and 48 on p. 166.

As to the result of the competition between the two countries, it is difficult to come to precise conclusions. In Estonia and Latvia the proportional increase in imports from the United Kingdom after 1931 was accompanied by a decrease in imports from Germany, but by 1936 the proportion of imports from Germany was approximately the same for both Estonia and Latvia as in 1928–30. Thus, while German exports to these two countries seem to have suffered from British competition immediately after the crisis, the German share

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[1] In Estonia since 1934; in Latvia since 1932.

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TABLE 46. *Distribution of Foreign Trade*

(i) EXPORTS (*Percentages of total value*)

To	*Estonia* 1930	1932	1936	1937	*Latvia* 1930	1932	1936	1937	*Lithuania* 1930	1932	1936	1937
Germany	30·1	26·3	22·6	30·6	26·6	26·2	30·6	35·3	50·9	39·1	10·8	16·3
United Kingdom	32·3	36·7	36·5	33·9	28·4	20·6	34·7	38·4	19·5	41·4	46·4	46·4
Belgium	1·9	4·5	1·6	*	6·4	6·0	5·8	5·2	2·0	1·6	5·5	3·7
Netherlands	2·3	0·6	2·3	*	6·0	1·8	3·4	3·8	3·0	2·1	2·9	4·6
France	4·3	4·7	4·7	3·2	5·2	5·5	2·2	1·8	0·7	1·6	4·5	4·7
Estonia	—	—	—	—	1·4	1·5	1·7	0·8	0·1	0·1	0·4	0·4
Latvia	1·7	3·7	1·3	1·0	—	—	—	—	6·9	2·4	1·8	0·8
Lithuania	*	*	*	*	2·7	4·2	1·0	0·6	—	—	—	—
Sweden	4·0	2·6	5·6	2·9	1·1	0·9	2·3	1·2	1·3	1·0	2·9	2·2
Norway	1·1	1·1	0·3	*	*	*	0·2	1·6	*	*	0·5	0·1
Denmark	7·7	3·6	1·9	*	1·6	1·2	0·6	0·5	1·3	0·5	2·7	1·3
U.S.S.R.	4·5	0·4	3·6	4·1	14·1	14·7	3·0	2·5	1·6	3·5	5·3	5·3
Finland	2·7	4·7	6·7	5·8	0·7	0·4	3·3	0·8	*	*	0·7	0·5
Poland	1·3	1·3	1·6	*	1·1	1·1	0·5	0·3	*	0·1	0·3	0·4
Danzig				*	0·1	0·1			*	*		
Austria	*	*	*	*	0·3	0·1	0·4	0·3	*	*	0·9	1·1
Czechoslovakia	*	*	*	*	0·4	0·4	0·4	0·3	0·1	0·1	3·7	3·4
Italy	*	*	1·2	*	0·2	0·3	0·1	0·7	0·1	0·4	0·2	0·4
Switzerland	*	*	*	*	0·2	0·3	0·7	1·0	0·3	0·2	1·0	1·6
U.S.A.	2·0	3·6	3·7	3·7	1·0	0·9	4·7	1·1	0·6	0·6	3·5	3·3
Other Countries	4·4	6·0	7·2	14·6	2·6	3·6	4·4	3·5	3·6	5·1†	4·1	3·3
Total	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0

* Included in other countries. † Whereof 1·6 per cent. to the Argentine.

(ii) IMPORTS (*Percentages of total value*)

From	*Estonia* 1930	1932	1936	1937	*Latvia* 1930	1932	1936	1937	*Lithuania* 1930	1932	1936	1937
Germany	26·3	22·0	20·7	26·1	37·2	25·6	38·4	37·1	48·5	40·3	9·0	21·6
United Kingdom	8·6	13·6	17·9	16·7	8·5	13·9	21·4	20·7	7·7	10·6	37·0	27·9
Belgium	1·9	2·3	1·8	*	1·9	3·6	2·9	3·7	2·4	4·5	7·1	7·9
Netherlands	1·7	3·1	3·5	*	1·9	1·9	1·3	2·6	3·2	2·7	4·5	4·2
France	4·2	2·6	2·0	2·2	3·2	4·3	1·7	1·7	3·0	2·4	3·1	2·6
Estonia	—	—	—	—	1·3	1·0	0·8	0·6	1·1	1·3	0·6	0·4
Latvia	2·7	4·1	2·7	1·4	—	—	—	—	4·3	4·6	1·3	1·0
Lithuania	*	*	*	*	3·1	2·1	1·6	0·7	—	—	—	—
Sweden	4·6	4·5	5·3	6·6	2·0	2·0	3·3	3·6	2·4	2·1	3·1	3·3
Norway	0·1	0·1	0·5	*	*	*	0·6	0·8	0·4	*	0·9	0·4
Denmark	3·1	1·3	2·4	*	1·9	1·2	1·4	2·2	1·7	1·2	3·0	3·3
U.S.S.R.	9·2	5·7	5·9	5·7	5·9	10·1	2·9	3·6	4·4	6·1	9·1	8·4
Finland	2·2	3·7	3·6	4·9	0·6	0·7	0·4	0·6	0·7	*	0·2	0·2
Poland	5·5	2·9	2·1	*	10·5	5·8	1·6	2·0	3·3	2·1	0·1	*
Danzig				*	0·9	0·2						*
Austria	*	*	*	*	0·8	0·5	0·5	0·4	0·5	*	1·5	0·8
Czechoslovakia	*	*	*	*	3·7	1·6	0·6	1·3	5·8	7·6	4·6	3·3
Italy	*	*	0·7	*	1·1	1·1	0·5	0·8	2·0	2·4	0·2	0·7
Switzerland	*	*	*	*	1·6	1·4	0·9	1·3	1·3	1·1	1·6	1·6
U.S.A.	13·7	10·0	9·3	8·2	5·3	3·7	7·0	6·9	4·7	3·8	2·2	3·5
Other countries	12·9	13·7	13·7	28·2	7·3	9·1	12·3	14·3	9·7	6·0	10·7	8·7
Total	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0

* Included in 'other countries'.

1: Anonymous U-4 (no date)1938 RBI Baltic States R81

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TABLE 47. *Trade with the United Kingdom*

	Exports to U.K.	*Percentage of total exports*	*Imports from U.K.*	*Percentage of total imports*	*Balance in favour of Estonia*
	mill. Swiss francs		mill. Swiss francs		mill. Swiss francs
Estonia					
Ann. average 1928–30	55·6	*35·2*	16·4	*10·0*	39·2
Year 1931	36·1	*36·6*	6·5	*7·7*	29·6
„ 1932	21·7	*36·7*	7·1	*13·3*	14·6
„ 1933	17·9	*37·1*	7·6	*18·0*	10·3
„ 1934	24·1	*40·4*	7·8	*16·4*	16·3
„ 1935	25·1	*37·5*	10·9	*19·0*	14·2
„ 1936	25·7	*36·5*	13·1	*17·9*	12·6
„ 1937	30·3	*33·9*	15·6	*16·7*	14·7
					Balance in favour of Latvia
Latvia					
Ann. average 1928–30	72·0	*27·6*	28·2	*8·8*	43·8
Year 1931	41·6	*25·4*	15·1	*8·5*	26·5
„ 1932	29·7	*30·8*	11·7	*13·9*	18·0
„ 1933	34·6	*42·5*	20·0	*21·9*	14·6
„ 1934	30·5	*35·8*	21·4	*22·6*	9·1
„ 1935	29·8	*30·2*	20·6	*20·4*	9·2
„ 1936	40·9	*34·7*	22·7	*21·4*	18·2
„ 1937	60·2	*38·4*	28·7	*20·7*	31·5
					Balance in favour of Lithuania
Lithuania					
Ann. average 1928–30	30·1	*19·0*	12·0	*7·6*	18·1
Year 1931	46·8	*33·1*	10·2	*7·1*	36·6
„ 1932	40·6	*41·4*	9·3	*10·8*	31·3
„ 1933	37·1	*44·7*	12·6	*17·1*	24·5
„ 1934	32·5	*42·6*	18·2	*26·3*	14·3
„ 1935	36·0	*45·6*	24·8	*37·2*	11·2
„ 1936	47·7	*48·4*	29·5	*37·0*	18·2
„ 1937	50·1	*46·4*	30·7	*27·9*	19·4

TABLE 48. *Trade with Germany*

	Exports to Germany	*Percentage of total exports*	*Imports from Germany*	*Percentage of total imports*	*Balance in favour of Estonia (+) or Germany (−)*
	mill. Swiss francs		mill. Swiss francs		mill. Swiss francs
Estonia					
Ann. average 1928–30	43·2	*27·3*	48·5	*29·7*	−5·3
Year 1931	24·0	*24·3*	25·4	*30·0*	−1·4
„ 1932	15·4	*26·2*	16·4	*32·0*	−1·0
„ 1933	10·2	*21·2*	9·4	*22·5*	+0·8
„ 1934	13·4	*22·5*	10·2	*21·2*	+3·2
„ 1935	16·3	*24·4*	15·1	*26·3*	+1·2
„ 1936	15·8	*22·5*	21·8	*29·7*	−6·0
„ 1937	27·3	*30·6*	24·3	*26·1*	+3·0
					Balance in favour of Latvia (+) or Germany (−)
Latvia					
Ann. average 1928–30	69·1	*26·5*	128·8	*40·0*	−59·7
Year 1931	44·2	*27·0*	65·7	*37·1*	−21·5
„ 1932	25·3	*26·2*	30·1	*35·6*	− 4·8
„ 1933	21·2	*26·0*	22·5	*24·6*	− 1·3
„ 1934	25·2	*29·5*	23·2	*24·4*	+ 2·0
„ 1935	33·1	*33·5*	37·2	*36·8*	− 4·1
„ 1936	36·3	*30·8*	40·5	*38·4*	− 4·2
„ 1937	55·3	*35·3*	37·6	*27·1*	+17·7
					Balance in favour of Lithuania (+) or Germany (−)
Lithuania					
Ann. average 1928–30	93·9	*59·1*	77·4	*49·3*	+16·5
Year 1931	64·9	*45·9*	67·7	*47·0*	− 2·8
„ 1932	38·3	*39·1*	34·8	*40·3*	+ 3·5
„ 1933	27·2	*32·8*	26·6	*36·1*	+ 0·6
„ 1934	16·5	*21·6*	20·1	*28·0*	− 3·6
„ 1935	2·8	*3·5*	7·6	*11·4*	− 4·8
„ 1936	10·7	*10·8*	7·5	*9·0*	+ 3·2
„ 1937	17·8	*16·5*	24·0	*21·8*	− 6·2

in the imports of Estonia and Latvia had recovered to its pre-crisis level by 1936. In 1937, on the other hand, the imports of both countries from Germany fell off again relatively, though the proportion of imports from the United Kingdom was roughly unchanged. The case of Lithuania is affected by political considerations and is referred to below.

The British commercial agreements with each of the three Baltic States were all signed in July 1934[1] for three years, after which they were automatically prolonged unless or until notice is given to terminate the agreement by one of the two parties. The general principle of the agreements was that the United Kingdom undertook not to restrict further, except in specified circumstances, her imports of certain agricultural products, mainly bacon and butter. In return for this, each of the Baltic States agreed to import a large proportion (85 per cent. for Estonia, 80 per cent. for Lithuania, and 70 per cent. for Latvia) of their coal imports from the United Kingdom, and to reduce their duties on imports of British manufactures, mainly textiles and iron and steel goods. Special facilities also were given for imports of herrings. As the result there has been a noteworthy increase in the sterling available to the Baltic States from their trade with this country since the worst years of the depression. Trade with Germany, on the other hand, has tended relatively to be maintained at the level of the pre-crisis period, except in the case of Lithuania. Here the political situation during 1932 to 1936 gradually reduced commercial intercourse between the two countries to an almost negligible amount.[2] British trade gained most of what German trade lost. With the improvement of political relations between Germany and Lithuania it became possible, in August 1936, to conclude a clearing agreement whereby each country undertook to import goods from the other to the value of 12·5 mill. RM., or about 30 mill. lits per year. So far as the United Kingdom is concerned, the effect of this agreement can be seen from the fact that in 1937 only 27·9 per cent. of Lithuania's total imports came from the United Kingdom, as compared with 37·0 per cent. in 1936. On the other hand, the figure for 1931 was 7·1 per cent., and it seems unreasonable to suppose that all the ground gained since that date will be lost. How far German trade policy towards these countries has resembled that employed during 1936 and 1937 in Central and Eastern Europe it is at present difficult to determine. It is noteworthy, however, that in 1937 Germany's imports from Latvia exceeded her exports to that country by no less than 17·7 mill. lats, and it is possible that this may eventually lead

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[1] A provisional agreement was concluded with Latvia in July 1933.

[2] See above, p. 102.

459 to results similar to those arising out of Germany's clearing agreements, for example, with Greece, Turkey, and Yugoslavia. The German clearing agreements with Estonia and Lithuania seem to be working in a normal manner.

Trade with countries other than Germany and the United Kingdom continues to be of minor importance. There was a further decrease in the relative proportion of inter-Baltic trade,[1] for reasons already noted, while there was a tendency for trade with the Scandinavian countries, particularly Sweden and Finland, to increase, no doubt because the latter two countries belong to the 'sterling bloc' and their currencies are convertible. There was a tendency also for the relative value of exports to the U.S.A. to rise, probably for the reason which encouraged exports to the United Kingdom. With most of the other countries trade is conducted by means of compensation or clearing agreements. Apart from this, the only development of importance was the decrease of Estonia's and Latvia's imports from, and the increase of Lithuania's exports to, the U.S.S.R.; in all three cases political considerations played some part; Latvia's exports to the U.S.S.R. fell off very considerably after the expiry of the commercial agreement in 1932. Political considerations, also, continued to be responsible for the low level of commercial intercourse between Poland and Lithuania.

4. THE BALANCE OF PAYMENTS

457 In Part I it was shown that during the latter part of the period 1919–30 the Baltic States were importing capital, and that there was generally a deficit on current account. The import of capital ceased in 1931, and, owing to the shortage of exchange, efforts were made to reduce the proportion borne by merchandise imports to exports. The success of these measures can be judged from Table 49 opposite.

457 As the result of the commercial policy pursued since 1931, Estonia
439 has become a country with a surplus of merchandise exports, except in unusual years like 1936 or 1937; Latvia has considerably reduced her import surplus and occasionally, as in 1932, 1936, and 1937, has an export surplus, while Lithuania has increased her export surplus. These changes have fundamentally altered the balance of payments, for the effects of the crisis greatly reduced the chief net invisible exports; and, if radical changes had not been effected in the merchandise account, there would probably have been a deficit in current account, which, as it could no longer be made good

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[1] In the summer of 1937 the commercial treaty between Estonia and Latvia was denounced, and Estonia included a 'Baltic clause' in a commercial treaty then signed with Finland. For the Baltic clause, see above, pp. 127–8.

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y capital imports, would probably have led in turn to currency epreciation. In the event, most years up to 1936 closed with a urplus, as can be seen from the following summarized table:

TABLE 49. *Balances of Payments*

CURRENT ITEMS

(In million Swiss francs)

	Estonia				*Latvia*				*Lithuania*			
	Merchandise and bullion (net)	*Interest and dividends (net)*	*Other items (net)*	*Balance*	*Merchandise and bullion (net)*	*Interest and dividends (net)*	*Other items (net)*	*Balance*	*Merchandise and bullion (net)*	*Interest and dividends (net)*	*Other items (net)*	*Balance*
1929	− 9·2	−8·2	+4·7	−12·7	−50·1	−5·9	+30·7	−25·3	+ 6·9	−2·7	+21·2	+25·4
1930	− 4·9	−9·0	+6·1	− 7·8	−15·5	−6·0	+28·7	+ 7·2	− 7·8	−5·0	+12·0	− 0·8
1931	+12·9	−6·9	+7·8	+13·8	− 3·8	−5·9	+17·0	+ 7·3	−30·4	−5·2	+13·9	−21·7
1932	+ 8·0	−7·2	+4·0	+ 4·8	+12·6	−5·3	+11·3	+18·6	+ 5·7	−4·0	+11·8	+13·5
1933	+ 7·9	−5·4	+3·3	+ 5·8	−13·8	−4·1	+ 9·3	− 8·6	+ 3·5	−2·1	+ 3·9	+ 5·3
1934	+11·6	−3·8	+1·9	+ 9·7	− 5·1	−3·8	+ 9·1	+ 0·2	− 2·7	−1·6	+ 7·2	+ 3·0
1935	+ 8·6	−3·7	+2·9	+ 7·8	+ 1·2	−4·3	+ 7·4	+ 4·3		not available		
1936	− 4·4	−2·3	+5·3	− 1·4	+12·0	−3·1	+ 5·6	+14·5		not available		

As regards the details of the chief changes since 1929, the position can be seen from Table 50 on p. 170, in which the figures for that year are compared with those for 1935 and 1936 in the case of Estonia and Latvia, and for 1934 in that of Lithuania, these being the latest years for which data are at present available.

Principal Changes. The chief change has been the reduction of net payments in respect of interest and dividends. This is due to the suspension since 1932 of instalments on War and relief debts, but also to the depreciation or devaluation of the currencies in which the other debts are expressed. There has been no default on any of the foreign debts of these States. On the contrary, interest payments were resumed in 1934, though at a lower level than was provided in the loan contract, on the foreign debt of the City of Riga.[1] A further development of importance was the substantial fall in receipts from the transit trade, from which Latvia in particular has suffered. This was due to the general decrease of foreign trade since 1929 and especially to the fall in shipments from the U.S.S.R. via Riga. The Latvian and Estonian finishing trades also suffered considerably. Lithuania was severely affected by the decline in emigrants' remittances from the U.S.A., her only invisible export of any importance.

It is improbable that there have been any material changes in the last two years. The Latvian abandonment of the gold standard in September 1936 will, of course, have increased the cost of the foreign debt service, but this must be offset by the increase of foreign trade since that date, which has almost certainly led to an increase in the

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[1] See further p. 182.

TABLE 50. *Balances of Payments* (*in detail*)

CURRENT ITEMS

(*In million Swiss francs*)

	Estonia			*Latvia*			*Lithuania*	
	1929	*1935*	*1936*	*1929*	*1935*	*1936*	*1929*	*1934*
I. *Merchandise* (net)								
Merchandise . . .	− 7·5	+9·5	− 3·1	−88·1	− 2·1	+12·3	+ 9·1	+4·5
Ajustments:								
(*a*) Ships purchased abroad	− 1·8	−0·9	− 1·3	− 5·2	+ 0·4	− 0·7	..	..
(*b*) Other adjustments .	..	..	..	+43·2*	+ 3·0	+ 0·5	− 2·1	−7·1
II. *Interest and Dividends* (net)								
Interest on inter-governmental debt. . .	− 2·6†	−1·5†	− 1·5†	‡	..	..	− 1·1	..
Interest on other public debt	− 2·8	−0·4	− 0·3	− 1·9	− 1·0	− 0·5	− 1·0	−1·6
Interest, &c. on other long- and short-term debt .	− 2·5	−1·8	− 0·4	− 4·0	− 3·3	− 2·6	− 0·6	+0·1
III. *Other Items* (net)								
Shipping freights . .	+11·1	+8·8	+11·2	+10·0	+11·9	+11·7	..	+0·2
Port fees, &c.	− 5·7	−4·8	− 6·6	+ 1·0	− 9·3	− 8·3	+ 0·2	+0·1
Transit fees, warehousing, &c.	+ 0·4	−0·1	..	+12·1	− 0·9	− 2·0	+ 3·8	+0·2
Insurance	− 0·3	−0·4	− 0·3	− 0·2	− 0·5	− 0·9	+ 1·5	−1·0
Banking commissions, &c.	§	§	§	§	§	+ 0·6	+ 0·1	+0·2
Post, telegraphs, and telephones	+ 0·8	+0·2	+ 0·2	..	+ 0·2	− 0·1	+ 0·7	+0·3
Immigrant and emigrant remittances	− 1·4	..	..	+ 8·0	+ 1·3	+ 1·3	+14·6	+6·2
Tourist expenditure . .	+ 0·1	+0·1	+ 0·7	− 1·6	+ 2·5	+ 1·7	− 0·9	+1·1
Diplomatic expenses. .	+ 0·7	+0·2	− 0·1	+ 3·2	+ 2·4	+ 2·1	− 0·2	−0·1
Other Government receipts and expenses . .	− 0·7	−0·9	+ 0·2	+ 0·9	..	..	+ 0·6	−0·1
Other current items . .	− 0·3	−0·2	− 0·1	− 2·7	− 0·2	− 0·5	+ 0·6	+0·1
IV. *Bullion*	+ 0·1	..	..	− 0·1	− 0·1	− 0·1	− 0·1	−0·1
Balance	−12·7	+7·8	− 1·4	−25·3	+ 4·3	+14·5	+25·4	+3·0

* Adjustment for wrong valuation.

† Including payments in respect of the League Loan.

‡ Included in capital account.

§ Included in 'Interest on other long- and short-term debt'.

[*Note*: The figures for individual items above are probably not strictly comparable as between country and country, but they do form a rough basis for comparison.]

net invisible exports such as shipping and the transit trade. From this Estonia, too, should have benefited, though, on the other hand, there has again been an excess of merchandise imports in 1937. As regards Lithuania, the improvement of conditions in the U.S.A. during 1936 and the first half of 1937 may be assumed to have resulted in an increase of emigrants' remittances in the last two years, while the improvement of economic relations with Germany should have a beneficial effect on the other invisible items. There can be little doubt that in each case there was a surplus on current account during 1937.

1: Anonymous U-4 (no date)1938 RB1 Baltic States RB2

Estonia

III. THE FINANCIAL SITUATION

1. The Exchanges and Monetary Policy, 1931–7

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The general principle upon which currency stabilization had been effected in the Baltic States was, briefly, that central banks should hold gold or foreign exchange reserves sufficient to offset any temporary adverse movements in the balance of payments which could not be covered by capital imports. These reserves were naturally not large enough to meet withdrawals of foreign capital on a large scale; and it cannot be said that they were intended to be. By the end of 1930 it had become impossible to import capital owing to conditions on foreign money markets. Moreover, the reduction of foreign trade was leading, as has been seen, to serious deficits in the balance of payments. The German crisis, which began in July 1931, was followed in the Baltic States by an entire loss of confidence, and to some extent by a withdrawal of German and other foreign capital, leading quickly to a considerable amount of domestic withdrawals. Finally, the collapse of sterling in September of that year led to conditions bordering on panic, for in Estonia, and to a smaller degree Latvia, the foreign exchange reserves of the Central Banks had been held largely in sterling, and to that extent were reduced proportionately with the fall of the pound.

All these events struck at the very principle upon which the Baltic currencies had been stabilized, but the policy adopted to meet them has varied considerably from country to country. In Estonia and Latvia official exchange restrictions were adopted in the autumn of 1931; but Lithuania was able to avoid this step until 1935. Again, Estonia decided to abandon the gold standard and join the sterling *bloc* in the summer of 1933, but Latvia did not follow her example until September 1936, while in Lithuania the external value of the currency has been maintained at the same level ever since the stabilization of 1922. Lastly, the general improvement in world economic conditions since 1933 has been reflected very differently in the currency systems of these three States. It will therefore be necessary to examine the position in each country separately.

Estonia. In Estonia exports had tended to decrease since 1928, but imports had been reduced, and there was a comfortable surplus of merchandise exports in 1931. Invisible exports also exceeded invisible imports in that year. It might therefore be asked why a currency crisis should have arisen at all. The answer would be that it was largely a crisis of confidence. The German catastrophe of July 1931 had been followed by withdrawals of German capital, and a flight from the kroon by Estonian nationals. Moreover, a large proportion of the *Eesti Pank*'s foreign exchange reserves consisted of

652 sterling, and the loss on the abandonment of the gold standard by Great Britain was considerable. Even before 1931 these reserves had 457 been allowed to fall to a low level, and it was clear that, if sterling 458 continued to depreciate, they would soon fall below the minimum required for safety.

At this stage the alternatives before Estonia were to abandon the gold standard like the Scandinavian countries—the kroon, it will be remembered, was based on the Swedish crown—or to impose a system of exchange control. Estonia, however, had not sufficient resources to justify taking the chances with her currency which the former alternative seemed to involve, especially in the uncertainties prevailing during the autumn of 1931. Moreover, the abandonment of the gold standard, it was felt at the time, might lead to currency inflation, the disastrous effects of which Estonia had already experienced once. It is not surprising, therefore, in the circumstances, that unofficial exchange restrictions were introduced early in October, though official control of the exchanges was not put into effect until November 19, 1931. The restrictions were constantly made more rigid throughout the year that followed. With their help, and that of the increased restrictions on exports, the gold value of the currency was maintained at its legal level.

It gradually became clear, however, that this was a somewhat empty achievement. The example of Germany was beginning to show the difficulties to which exchange control leads. Moreover, maintenance of the original value of the kroon penalized Estonia's exports to Great Britain, and placed her in a poor position to compete with other exporters of dairy produce and timber in countries which had depreciated their currencies. It was gradually recognized, therefore, that a mistake had been made. In December 1932 it was decided to impose an *ad valorem* tax of 15 per cent. on sales of foreign exchange to importers, &c., the proceeds of which were allocated to a fund established for subsidizing exports. The depreciation of the dollar in March 1933 considerably lightened the burden of Estonia's foreign debt, and it thus became possible to go even farther. On June 28, 1933, the gold standard was abandoned, and the external value of the kroon was reduced to that of the Swedish crown, involving a depreciation, at that stage, of about 35 per cent. Finally, during the following autumn it was decided to base the external value of the Estonian kroon directly on that of sterling, with which currency the kroon has since fluctuated.[1]

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[1] According to the League of Nations *Memorandum on Commercial Banks, 1935–6*, Geneva, 1936, p. 74, the gold held by the *Eesti Pank* at the time of the abandonment of the gold standard, viz. 19 million kroon, has not yet been revalued. A substantial profit should eventually accrue to the State therefrom.

Estonia
Latvia

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There is little doubt that the general improvement which followed was due to the abandonment of the gold standard. Wholesale prices began to rise appreciably enough to give some relief to producers, but not sufficiently to offset the effect of currency depreciation on foreign trade, for the value and volume of exports, especially to the United Kingdom, began to increase almost immediately. Lastly, as will be seen from the table at the end of this section, the exchange reserves also began to improve, and it was possible to relax the exchange restrictions considerably. It is true that restrictions are still in force, but their main purpose is to prevent the export of capital and the import of goods not considered to be essential to Estonia's economy; and they do not at present interfere very greatly with normal commercial transactions.

Latvia. In Latvia the decrease of foreign trade between 1929 and 1931 was very considerable, but the current items of the balance of international payments showed a surplus both for 1930 and 1931. As in Estonia, the extraordinarily severe financial crisis of the latter year was largely a crisis of confidence. The withdrawals of capital arising out of the German banking crisis of July were even heavier in Latvia than they were in Estonia, and there was an alarming decrease in the gold and foreign exchange reserves of the Central Bank. The amount of withdrawals, both foreign and domestic, was so large that regulations were introduced in the middle of July 1931 imposing strict limits on the proportion of deposits which might be withdrawn.[1] These difficulties were greatly increased by the abandonment of the gold standard in the United Kingdom, much of Latvia's exchange reserves being in sterling, and on October 8, 1931, a system of exchange control was introduced.

Although the banking moratorium was gradually relaxed, the severity of the exchange restrictions was constantly increased, and their scope was considerably widened. This process continued until 1935, and though, as will be seen, the currency was virtually allowed to depreciate in that year, the nominal gold parity was maintained up to September 1936. Since the economic structure of Latvia so closely resembles that of Estonia, which had abandoned the gold standard in June 1933 and greatly profited thereby, the question will arise why Latvia did not follow Estonia's example. It should, however, be pointed out that Latvia had experienced a severe credit crisis, whereas Estonia had not; and that this greatly intensified the common fear that the abandonment of the gold standard might be followed by a currency inflation similar to that of the period immediately after the War. Moreover, before the crisis, Latvia, unlike Estonia, had an habitual surplus of merchandise

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[1] On the banking moratorium in Latvia, see further pp. 184–5.

457 652 458 imports, and it was felt, not without some justification, that until this import surplus had been converted into an export surplus, or at any rate substantially reduced, experiments with the currency would be inadvisable.

Whatever the reasons for Latvia's choice, its effects are plain. The Government was gradually led by the consequent deflation to extend the control which it now exerted over exchange movements, not only to almost every branch of production and trade, but to the credit system as well,[1] and to follow an economic policy very similar to that pursued by Germany for the same reasons. But it was clear that, though this system enabled the Government to maintain that the nominal gold parity of the lat was unaltered, it did nothing to improve foreign trade, and Latvian exports to Great Britain met with considerable competition from Estonia. The Latvian exchange policy was, consequently, modified so as to assist exports. The change took the form at first of a direct subsidy to exporters of the principal export commodities, such as butter. During 1935, however, a new system was introduced whereby the exporter received a premium in lats over the official price given by the control authorities for the exchange produced by his exports, and the importer had to pay a similar premium for the exchange required to pay for his imports. This premium at times rose to as high a figure as 35 per cent. In other words, the Government were virtually forced to admit that the external value of the currency had depreciated by roughly 25 per cent.

Nevertheless, although this admission was of some value to Latvia's foreign trade, the system introduced in 1931 was maintained until the end of September 1936. The almost simultaneous devaluation of the French and Swiss francs and the depreciation of the Dutch guilder gave the Latvian Government the opportunity of openly recognizing the depreciation in the external value of the lat without losing prestige.[2] On September 28 a law was passed fixing the parity of the lat at 25·2215 to the £, the parity existing before Great Britain abandoned the gold standard.[3] Since sterling has no fixed value in gold, this step on Latvia's part was equivalent to the abandonment of the gold standard; and from that date the lat has belonged, like

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[1] On this point see further, p. 185.

[2] The difficulty of adhering to the currency policy which Latvia had chosen was shown shortly before the devaluations of September 1936 gave her this opportunity. In July 1936 it had become necessary for the Government to reduce the gold and foreign exchange cover for the note circulation from 50 per cent. to 30 per cent. of the total note issue, provided that the latter was less than 100 million lats. *Frankfurter Zeitung*, July 16, 1936.

[3] An exchange equalization fund was established in November 1936, to which was allocated some of the profit arising out of the writing up of the value of gold in the hands of the Government and the *Latvijas Banka*. Exactly how much of the profit was so used is not known.

Latvia
Lithuani

the Estonian kroon, to the sterling *bloc*. The exchange restrictions, however, have not been notably relaxed, and it is still necessary for Latvian importers to obtain an import licence, which usually carries with it a permit to receive exchange, though in practice the restrictions now interfere little with normal commercial transactions. 457 652 458

Lithuania. In Lithuania the immediate effects of the general financial crisis of 1931 were less severe than in the other two countries. The extent of foreign investment in the banking system was smaller, and the withdrawals which took place were not sufficient to lead to any great loss of confidence in the currency. Moreover, the loss on the abandonment of the gold standard in Great Britain was not so large as in Estonia or Latvia, for the gold reserves of the Central Bank were chiefly held in dollars and not in sterling. Thus, although the fall in the volume of foreign trade had been considerable, and there were some domestic withdrawals from the banks, there was no serious flight of capital. Large exports of capital did not, in fact, begin to take place until 1935, and it is significant that, though the current items of the balance of payments had led to an unfavourable balance in 1931 and 1932, and there was a corresponding decrease in the gold and foreign exchange holdings of the *Lietuvos Bankas*, official exchange restrictions were not introduced until October 1935. The inference must be, it would seem, that the reserves accumulated year by year up to 1930 were sufficient to offset current adverse movements, but not to cover a heavy export of capital.

The sudden deterioration of the position in 1935 was largely due [648] to extraordinary causes. The dispute with Germany over Memel, as has been seen, led to an almost complete suspension of commercial intercourse with what had been Lithuania's best customer. Moreover, the increase of emigration to Palestine was responsible for capital withdrawals on a fairly considerable scale. Thus, though the Central Bank had avoided a loss on the devaluation of the United States dollar in 1933 by converting most of its dollar holdings into gold or other currencies before the dollar was devalued, its gold and foreign exchange reserves continued to decrease. By the end of September 1935 the margin above the 33⅓ per cent. required as cover for the note issue was negligible, and on October 1 exchange restrictions were at last introduced. With their help the original gold parity of the litas has since been maintained.

It will be asked how this has been possible during a time in which Lithuania's chief competitors in the export market had the advantage of a depreciated currency. The reply seems to be that in Lithuania the fall of prices was greater than in the other two countries, and that,

457 so far as exports are concerned, this offset some of the advantages
652 gained by Estonia and Latvia through currency manipulation.
Moreover, most exports have gradually been brought under the
458 control of Government agencies, direct or indirect, and in some cases, e.g. butter, considerable subsidies have been granted. Lastly, the standard of living is considerably lower in Lithuania than in the other two countries, and in Lithuania the peasant is perhaps readier than in Estonia or Latvia to accept the lower prices which he must ask if his goods are to compete in world markets. But, though Lithuania has thus been able to make the best of both worlds by retaining her share of the foreign market, and at the same time adhering to the gold standard at the old level, the situation is clearly artificial, and the fact that it is necessary to subsidize exports indicates that the claim that the old parity of the litas has been maintained is not strictly correct. It is therefore surprising that Lithuania did not, like Latvia, seize the opportunity to recognize the *fait accompli* in September 1936. But, both then and since, the Government has insisted that there will be no change in their currency policy, and meanwhile the restrictions have been maintained. No difficulties, however, have been made by the authorities up to the present in supplying foreign currency for legitimate commercial transactions.

Developments during the period can be seen from the table opposite.

2. PUBLIC FINANCE

652 The budgetary position of all three States was, of course, severely affected by the crisis. The fall of agricultural prices rendered the collection of taxes difficult, and the general decrease in activity led also to a decrease in the revenue from indirect taxation, particularly from import duties. Ordinary expenditure, on the other hand, could not always be reduced *pari passu* with revenue, and, though very considerable economies were made, budgets were thrown into deficit. At the same time, though extraordinary expenditure was greatly reduced by the suspension of expenditure on public works, the State was obliged to spend considerable sums, usually outside the budget, on assisting the economic system by subsidies and other similar measures. During the last year or two, however, the increase of activity has led to a considerable improvement in ordinary budgets. But with this improvement there has been no reduction of the direct interest which the State had taken during the crisis in various branches of economic activity. On the contrary, the direct part thus played by the State has considerably increased in importance, at any rate in Estonia and Latvia, though the relevant figures do not always appear in the budgets.

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TABLE 51. *Position of the Exchanges*

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	Exchange Reserves of Central Bank in millions (at end of year)			*External value of currency expressed as a percentage of gold parity (average for year)*
	Gold	*Foreign Exchange*	*Total*	
Estonia: (kr.)				
1929	6	21	27	99·8
1930	7	16	23	99·6
1931	7	15	22	99·8
1932	15	5	20	100·2
1933	20	2	22	62·4
1934	28	4	32	62·1
1935	34	2	36	60·1
1936	34	9	43	60·8
1937	34	17	51	60·4
*Latvia:** (lats)				
1929	24	56	80	99·[illegible]
1930	24	41	65	100·0
1931	32	15	47	99·9
1932	36	12	48	100·0
1933	45	3	48	99·2
1934	46	4	50	96·3
1935	46	7	53	96·7
1936	77†	28	105	89·6‡
1937	77†	43	120	60·0
Lithuania: (lits)				
1929	35	78	113	99·7
1930	39	86	125	100·1
1931	50	33	83	100·2
1932	49	16	65	100·3
1933	52	15	67	100·1
1934	52	8	60	100·0
1935	36	18	54	100·0
1936	73	10	83	99·7
1937	79	6	85	99·4

* Gold holdings include gold held by the Government.

† After revaluation on the abandonment of the gold standard.

‡ Until the end of September the old parity of the lat was maintained in theory.

Estonia. Developments in recent years are shown in Table 52 on p. 178.[1] 652

The decline in ordinary revenue from the figure reached in 1928–9 was offset by a considerable reduction in ordinary expenditure effected during 1932. In that year salaries of officials were reduced by from 4 to 26 per cent., and large savings were made on repairs, renewals, and the purchase of materials. In spite of these measures,

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[1] Most of the figures in the following tables and the information in this section are taken from the League of Nations: *Memorandum on Public Finance, 1928–1935*, Geneva, 1936–7, to which reference should be made for fuller details. Figures for Estonia in 1935–8 are taken from an article by the Assistant Minister for Economic Affairs, M. A. Keller, in *The Banker* for March 1938.

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Table 52. *Budgetary Situation: Estonia*

(*In million kroon*)

Year	*Ordinary Budget*		*Extraordinary Budget*		*Balance*	*Receipts from loans*	*Drafts on Treasury Balance*
	Receipts	*Expenditure*	*Receipts*	*Expenditure*			
1928–9	88·6	75·8	3·6	15·0	+1·4	..	..
1929–30	86·5	83·4	4·8	12·3	−4·4	4·6	..
1930–1	83·5	83·0	1·2	14·0	−12·3	7·2	5·1
1931–2	76·8	73·4	2·0	13·7	−8·3	3·9	4·4
1932–3	62·9	60·6	3·2	7·9	−2·4	..	2·4
1933–4	63·6	61·1	1·6	4·1	..	..	..
1934–5	70·4	64·4	3·5	9·5	..	..	..
1935–6	79·5	79·4*	..	†	+0·1	..	..
1936–7	89·9	90·0*	‖	†	−0·1	..	−0·1
1937–8‡	98·5*	§	§	§	§	§	§

* Including extraordinary budget.
‡ Estimates.
‖ Included in ordinary receipts.
† Included in ordinary expenditure.
§ Not available.

there remained a substantial deficit to be covered. As is shown above, this was met partly from loans. But, of the total borrowed in 1929–31, 7 millions represented the proceeds of the Swedish Match Loan, which was spent on the construction of railways, and partly accounts for the abnormally high level of extraordinary expenditure from 1928 to 1932. Apart from this, the State borrowed about 4 millions from the *Eesti Pank*. The remainder of the deficit was met out of the cash balance of the Treasury, which was consequently reduced from 22·8 millions at the end of 1928–9 to 2·0 millions at the end of 1933–4, though, owing to the better conditions prevailing since then, it has subsequently increased. At the same time, the total internal public debt has increased from 4·9 million kroon at the end of 1928–9 to 12·2 million kroon at the beginning of 1938.

The improvement since 1932–3 has been substantial, for in each year a balance has been obtained without recourse to borrowing or drawing on the Treasury. What is perhaps more remarkable is that the fall in the external value of the kroon since 1933 did not produce a greater increase in the kroon value of expenditure until 1936–7. In point of fact, expenditure had been reduced to such a degree by 1934–5 that, when an unexpectedly large increase in revenue led to a surplus, the two supplementary budgets were introduced during the year to revise the estimates in order that this surplus might be applied, as between the ordinary and extraordinary budgets, on repairs and renewals which had been neglected during the bad years.

The general impression created by these figures is that the public finances have now recovered from the crisis at the cost of a comparatively small increase in the public debt. Yet it must be remembered that recent economic policy, already referred to, has resulted in the

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assuming of numerous contingent liabilities by the State outside the budget. The method usually consists of the creation of autonomous organizations such as the funds for the stabilization of prices of butter, bacon, and eggs. These funds are in theory self-supporting, the principle being to guarantee a fixed export price to the producer. So far, the difference between the internal and external prices of most of the commodities concerned has enabled these funds to be self-supporting in practice as well as in theory. But it is clear that in the event of a further period of depression, a heavy liability might fall on the State. No figures are available to show the proportion which these liabilities might assume.

Latvia. In Latvia it is even more important than in Estonia to distinguish clearly between the financial position as shown in the budget figures, and that implied by the recent incursions of the State into the economic system.

So far as the budgetary situation is concerned, recent developments are shown in the following table:

TABLE 53. *Budgetary Situation: Latvia*

(*In million lats*)

Year	*Ordinary Budget*		*Extraordinary Budget*		*Balance*	*Proceeds of Loans*	*Final Balance*
	Receipts	*Expenditure*	*Receipts*	*Expenditure*			
1928–9	180·3	111·7	4·6	92·0	–18·8	25·0	+6·2
1929–30	181·4	120·3	9·7	63·0	+7·8	3·9	+11·7
1930–1	167·6	124·4	5·0	50·7	–2·5	..	–2·5
1931–2	117·7	118·7	10·4	33·6	–24·2	..	–24·2
1932–3	119·2	100·8	4·6	34·2	–11·2	6·3	–4·9
1933–4	121·4	99·0	2·2	38·3	–13·7	5·9	–7·8
1934–5	128·9	101·9	3·7	37·6	–6·9	6·5	–0·4
1935–6*	142·4	108·8	4·1	42·2	–4·5	4·5	..
1936–7*	152·0	133·1	6·2	26·4	–1·3	1·4	+0·1
1937–8*	166·3	142·6	13·6	37·3	..	..	..

* Estimates.

The years 1928–30 were to some extent abnormal, since the State was spending large sums on capital expenditure, which was largely covered out of the loan from the Swedish Match Trust, as already mentioned. The rapid decline in receipts after 1929–30 was met by a considerable reduction in ordinary expenditure, particularly on repairs and renewals, while in 1931–2 the salaries of State officials were reduced by 10 per cent. Yet, in spite of economies, the cost of the depression has been heavy. The balance of the Treasury reserve fund, which amounted to 86·5 million lats at the end of the year 1927–8, was reduced to 31·7 million lats by the end of 1934–5, and the funded internal debt—no external debt has been created by the state since 1930[1]—increased from 0·6 million lats at the end of 1927–8 to 19·2 million at the end of 1935–6. The internal floating debt also has increased substantially, and amounted to 16·4 million lats at the end of 1935–6. To some extent this was due to the maintenance of the gold standard and the consequent necessity to take special measures to support the export trades. For example, subsidies for the promotion of agriculture, 1·0 million lats in 1929–30, amounted to 17·4 million lats in 1936–7 (estimates); and the total sum spent between the two years mentioned on this item was about 80 million lats.

There has been a considerable improvement since 1931–2, and, though complete figures are not available, it is probable that the budget for 1936–7 has closed with a surplus. But, as already mentioned, the analysis of the budgetary position can disclose no more than one side of the financial situation of the State. As in Estonia there are a number of extra-budgetary funds, which, though in theory self-supporting, may in practice involve the State in substantial liabilities. Moreover, the Latvian Government, unlike that of Estonia, has begun since 1935 to take a direct shareholding interest in a wide range of enterprises such as the *Latvijas Kreditbanka*, and even in individual industrial concerns. Full details as to the extent of these transactions are not available,[2] but some of their implications are clear. In times of prosperity, it is true, such undertakings may be a considerable source of revenue to the State. In a depression, however, it is possible that they will cease to make profits and, as the result, might have an unfavourable effect on the finances of the State. Thus, even from the purely financial point of view, the dangers of such a policy are obvious, particularly in a country like Latvia where there is no private capital market to which appeal can be made.

Lithuania. Developments during the last few years are summarized in the table opposite.

Though the decline of revenue, both ordinary and extraordinary, began later in Lithuania than in the other two countries, it was not much less serious. The decrease was to some extent met by reductions of expenditure, e.g. salaries of State officials were reduced by from 6 to 16 per cent. in 1932. Even so, there were considerable deficits, which could be met only by drafts on the Treasury's reserve fund. This fund was consequently reduced between the end of 1929 and the end of 1932 from 68·6 to 28·7 million lits, though owing to

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[1] Except for that connected with the Keggum power station, for which see below p. 182.

[2] However, in the official Latvian *Monthly Bulletin of Statistics* (*Mēneša Biletins*) for September 1937, it is stated that since 1934 91·7 million lats had been invested by the State in various industrial and other concerns.

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TABLE 54. *Budgetary Situation: Lithuania*

(*In million lits*)

Year	*Ordinary Budget*		*Extraordinary Budget*		*Proceeds of loans*	*Balance*
	Receipts	*Expenditure*	*Receipts*	*Expenditure*		
1928	278·7	224·8	2·6	55·7	..	+0·8
1929	296·1	228·6	3·1	41·4	..	+29·2
1930	302·0	243·5	11·2	77·1	..	−7·4
1931	311·8	250·7	3·3	84·6	..	−20·2
1932	252·2	220·6	13·8	57·6	..	−12·2
1933	228·5	206·6	20·7	43·0	1·0	+0·6
1934	235·9	205·6	21·7	46·2	..	+5·8
1935	218·9	208·2	41·5	68·7	*	−16·5
1936	245·9	220·5	56·9	67·2	*	+15·1
1937†	285·5	249·0	24·9	69·1	*	−7·7

* Included in extraordinary receipts. † Provisional results.

the borrowing policy of the Government it has since slightly increased. The improvement of conditions after 1935 led to an improvement of revenue; and during 1936 the increase of revenue exceeded estimates by so large a figure that the estimates of expenditure were revised in an upward sense. But the needs of national defence, which had been somewhat neglected during the preceding years, induced the Government to issue a long-term internal loan of 15 million lits in December 1936, bearing interest at 4½ per cent., and as the result of this and the budgetary deficits of the years of depression the internal debt increased from 0·8 million lits at the end of 1930 to 36·0 million at the end of 1936. A further increase took place in the spring of 1937 when powers were granted to the Government to issue a five years' loan of 20 million lits.

Thus, although the depression has led to a decrease in the Treasury's reserves and an increase in the internal debt, the latter is still comparatively small, and its cost to the budget is almost negligible. Unlike that of the other two countries, the Lithuanian financial system is not overburdened with a large number of extra-budgetary organizations, though it is true that the co-operative system is, in the last resort, dependent on the State in Lithuania as in Estonia and Latvia. One of the chief problems in Lithuanian public finance arises out of the maintenance of the gold standard and the consequent necessity for the Government to subsidize exports directly or indirectly. In the revised budget of 1936, for example, 20 million lits were allocated to the Ministry of Agriculture for the maintenance of agricultural prices. This support of prices arises largely out of the maintenance of the gold standard and is to some extent independent of world price movements. The total of the public funds which has to be spent in this way each year cannot be accurately ascertained,

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652 but it is probably large, and it is clear that there can be no substantial decrease so long as the Government continues to pursue its present exchange policy.

3. Foreign Debt

Since 1930 no long-term loans have been contracted abroad by
457 these States, and in all cases the service of existing loans, except that of War and relief debts,[1] has been maintained.

City of Riga Loan. The principal development during the period was the recognition by the Municipality of Riga of its responsibility for a loan contracted in London before the War, which did something to rehabilitate Latvia's credit. The total nominal amount of this loan was originally £1,322,700, bearing interest at 4½ per cent., and the whole issue was made in London in 1914 when Riga was a part of the Russian Empire. Service was maintained up to 1917, by which time £1,281,800 was outstanding. After Latvia was declared an independent republic, repeated efforts were made by the British bondholders to induce the municipality to recognize its liability for this loan. Their efforts were unsuccessful until July 1934, when an agreement was concluded, shortly after the Anglo-Latvian commercial treaty was signed, on the following basis. Arrears of interest were to be cancelled, the ultimate date of redemption was postponed from 1954 to 1984, the principal amount of each bond was reduced by 40 per cent., and the interest by ½ per cent. These terms applied only to bondholders who, at the date of settlement, were not Latvian citizens, holders of Nansen passports, or persons without nationality. The Latvian Government at the same time undertook to provide adequate guarantees for the carrying out of the arrangements and to impose no restrictions upon the transfer of service. The total nominal value of bonds recognized under the agreement was £1,217,200, but, owing to the writing down of the capital amount, the total nominal liability assumed by the municipality was £730,320. The only other important obligation incurred abroad during these years arose out of a contract concluded in August 1936 between the Latvian Government and a Swedish firm for the building of a power station at Keggum, on the Daugava near Riga.[2]

Reduction of Indebtedness. Apart from this, the chief changes can be seen from the table opposite which gives the latest figures available.

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[1] See above, p. 169.

[2] According to the *Ost Express* of February 25, 1936, the total cost of this undertaking is estimated at about 52 million lats, of which about 14·4 million have been provided in the form of a credit of 11 million Swedish krone by the Swedish contractors. Of the balance, 33·6 million lats was raised by an internal State loan in February 1936.

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TABLE 55. *Gross Foreign Indebtedness*

(*In million Swiss francs*)

At end of:	*Estonia*			*Latvia*		*Lithuania*	
	1930	*1935*	*1936*	*1930*	*1935*	*1930*	*1934*
1. Intergovernmental debt	114·0	67·5	67·8	85·1	52·7	36·2	22·6
2. Other Government and municipal debt . . .	51·7	23·3	26·9	31·1	29·5	37·7	28·0
3. Foreign long-term investments in banks, industry, &c.	45·8	23·3	22·1	104·8	82·9	33·6	43·6
4. Private short-term debt and other debt . . .	?	0·9	3·8	137·3	108·7	15·9	10·6
Total	(211·5)	115·0	120·6	358·3	273·8	123·4	104·8

The large reduction in intergovernmental debt is due to the depreciation of the dollar and sterling, which accounts also for much of the decrease in the other items, especially Government and municipal debt. The small decrease in Latvia's Government and municipal debt is due to the inclusion, in 1935, of the Riga debt already mentioned. It remains to be added that neither Estonia nor Latvia has had the full benefit of this decrease in their foreign indebtedness, owing to the depreciation of their respective currencies. Yet the amount of foreign debt is still relatively small, and so far as can be seen the service imposes no heavy burden on any of the three States.

4. THE BANKING SYSTEM, 1931–7

The crisis of 1931 had a severe effect upon the entire banking system. The commercial banks, which depended largely upon the financing of foreign trade, were the most seriously affected, owing to the general decrease of exports and imports, and especially to the exchange restrictions, which generally had the effect of centralizing dealings in foreign currency in the Central Banks or their nominees, while, as was seen, a large number of foreign credits made available to commercial banks in these countries by their foreign correspondents was withdrawn during 1930 and 1931. Mortgage banks, also, suffered severely through the decline in agricultural prices, which made it difficult, if not impossible, for peasants to meet the service of loans contracted when prices were considerably higher; and, as already noted, measures had to be taken to relieve such debtors in Estonia and Latvia. Finally, the general reduction in economic activity was inevitably reflected in the co-operative system, though the effect of the depression was less evident in this case than elsewhere.

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The general recovery of the economic situation in all three countries has naturally been followed by an improvement in the position of

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the banking system, particularly in that of the commercial banks. In the latter case the recovery has been accompanied, in Latvia and Estonia, by developments which are of some interest, and which are noted below. For reasons of space it is impossible to describe the developments which have taken place during the last few years in the other branches of the banking system. This omission is not of great importance, since the co-operative system, for example, remains, in principle at any rate, what it was before the depression. However, the difficulties encountered by the commercial banks since 1930 have somewhat increased the part which it plays in financing the internal distribution and export of agricultural goods, and even in the import of agricultural machinery and artificial manure. A further development outside the realm of commercial banking is the increase, since 1931, of deposits with Government savings banks, perhaps as a consequence of the lack of confidence, at any rate until the last year or two, in the commercial banks. Finally, it should be said that no complete statistics are available in a comparable form to show developments in the banking system of the Baltic States as a whole. A table showing the movement of deposits since 1929 is given on page 187.

Latvia. The most remarkable developments in commercial banking have taken place in Latvia. In order to explain these developments it is necessary to begin with the crisis of 1931. The German banking crash in July of that year led to an almost complete collapse of Latvia's commercial banking system. German withdrawals of credit and deposits had been particularly severe, and in the first fortnight of that month two of the largest commercial banks, which had close relations with the German banking system, stopped payment. The prevailing uncertainty led to conditions bordering on panic in Latvia, and there was a large number of domestic withdrawals. It finally became necessary for the Government, on July 21, to authorize the banks to restrict withdrawals of deposits to 5 per cent. of the total deposits per week, a figure which was subsequently reduced to 2½ per cent. This regulation was kept in force until the latter part of 1932, and only one of the private banks did not take advantage of it, but continued to pay out deposits in full during the whole period. In this bank a considerable amount of British capital was invested.

But, though this measure checked the further progress of the credit crisis, it naturally did not promote the return of confidence in the commercial banking system. For two years, as can be seen from the table at the end of this section, deposits with the joint stock and municipal and mutual credit banks remained at approximately the level to which they had fallen by the end of 1931, i.e. about half

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Estonia

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that of the peak year, 1929. Meanwhile, the banks were not able to improve their position through any increase in economic activity, for such an increase was prevented by the monetary policy pursued by the Government, at any rate until 1935.[1]

At this stage the State, now converted to totalitarian principles, intervened with a programme of reform. The instrument of this reform was the *Latvijas Kreditbanka*, founded by the Government in April 1935 with the comparatively large capital of 15 million lats.[2] The bank is directly controlled by the Ministry of Finance, and is empowered by decree to take over other banks or industrial concerns, at an arbitrary valuation from which there is no appeal, if the Minister of Finance is satisfied that they are in difficulties. This institution proceeded to put into effect a programme of compulsory amalgamation by taking over or liquidating a large number of commercial banks, in some of which a considerable amount of foreign capital was invested and, at the same time, to carry on ordinary banking business in competition with the few banks which remained. Thus, the bank began to acquire for itself a position in the financial system very similar to that of a monopoly.[3]

During 1936 and 1937 the importance of the *Latvijas Kreditbanka* has been still further extended. The bank has begun to take a direct shareholding interest in a number of important industrial concerns of a very varied nature, and thus to acquire a 'sphere of interest' in industry on behalf of the Government. While the Government has stopped short of the nationalization of all private interests, the powers possessed by the *Kreditbanka* are so large, and are exercised so arbitrarily, that considerable anxiety exists, not only in Latvia itself, but also abroad. Reassuring speeches, however, were made by the authorities during the first few months of 1937, which have done something to allay these feelings.[4]

Estonia. The effect of the crisis of 1931 on the commercial banks in Estonia was less severe than in Latvia, for, though the volume of credits withdrawn by foreign correspondents in 1931 was large, the connexion with the German banking system was perhaps less close. At all events, there was no collapse of the banking system similar to that which took place in Latvia, and drastic reconstructions were

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[1] See above, pp. 173–4.

[2] This was increased to 20 million lats in 1936.

[3] A similar policy was adopted with regard to insurance in Latvia. A law was passed in October 1934 granting the State Insurance Department of the Ministry of Finance wide powers over private insurance companies, requiring them to pay 10 per cent. of their premiums to the Department, and requiring fire policies to be reinsured with the Department to the extent of 25 per cent. Foreign insurance companies and their agents were forbidden to operate in Latvia. See D.O.T.: *Economic Conditions in Latvia, January 1935*, publ. 1935, pp. 7–8.

[4] The effect of recent developments in Latvian banking is discussed in the *Economist* of March 14, 1936, and January 9, 1937.

453 postponed until 1934, when one of the largest commercial banks was
458 finally compelled to write down its capital by a substantial propor-
652 tion. Similarly, the direct part played by the State in dealing with the banking system was very much smaller, though mention should be made of the introduction of a national credit law in March 1932, which supplemented the old Russian credit statutes hitherto in force.

The abandonment of the gold standard was followed by a considerable improvement in the banking position as a whole, and by 1935 most of the more important units of the system had completely recovered from the effects of the depression. The further growth of activity since 1935, and in particular the increase of industrialization, led to a considerable expansion of credit. Its extent may be judged from the fact that on December 1, 1937[1], the loans and discounts of 13 joint stock banks and the 25 principal co-operative banks stood at 97·2 mill. kr., as compared with 73·3 mill. kr. at the end of 1932. There was a similar movement also in the loans made by the Central Bank. This expansion created a serious problem for the Estonian credit system. For, since the middle of 1936, there had been a number of indications suggesting that economic activity had reached something like a boom level. In industry, as has been seen, there had actually been a shortage of labour, which had begun to attract workers from agriculture. The note circulation, also, had expanded —from 32·1 million kroon at the end of 1932 to 49·1 millions at the end of 1937—though there had also been an increase in the gold cover. But, as was shown, prices also had risen very rapidly. In these circumstances the continuous expansion of credit by the banking system aroused some apprehension, especially as there was a large import surplus both in 1936 and 1937. However, although by March 1938 no measures had been taken to restrict credit, there were signs that the authorities realized the dangers of the situation and were attempting to control the volume of capital outlay in building and industry.[2]

Lithuania. Developments in the commercial banking system in Lithuania were of less importance than in the other two countries. As already noted, the crisis of 1931 did not lead to a flight from the currency or to foreign withdrawals of capital on any great scale. There was, it is true, a number of domestic withdrawals in 1931, from which the commercial banks were just beginning to recover when the events of 1935 referred to above[3] took place. Even so, the

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[1] Subsequent figures are not comparable.

[2] It is of interest, however, in this connexion that in the spring of 1938 a proposal was being discussed in the Estonian press, according to the *Revalsche Zeitung* of March 5, 1938, for increasing the capital of the *Eesti Pank*. Since then little more has been heard of the proposal.

[3] See p. 175.

abnormal export of capital in that year was arranged without any 153
really serious effect on the banks, and there were no important 458
failures. Since 1935 there has been a steady improvement. 652

TABLE 56. *Movement of Deposits and Current Accounts with Commercial and Savings Banks*

(In millions of national currency)

At end of	I. Commercial Banks (deposits and current accounts)			II. Savings Banks (deposits only)		
	Estonia (all commercial and principal co-operative banks)*	*Latvia (joint stock banks and mutual and municipal credit assocs.)*	*Lithuania (commercial banks and mutual credit assocs.)*	*Estonia (State savings bank)*	*Latvia (postal savings bank)*	*Lithuania* (State savings institution)*
1929	65	92	96	3	4	2
1930	73	99	139	4	7	11
1931	60	49	140	5	8	25
1932	51	49	143	5	13	34
1933	51	51	149	6	20	39
1934	65	63	157	8	24	43
1935	74	74	155	10	49	43
1936	93	117	170	10	61	52
1937	103	173	204	10	79	60

* January 1 of following year.

IV. CONCLUSION

It has been seen that in Estonia and, superficially at any rate, in 458
Latvia, currency manipulation has been followed by a considerable degree of recovery, while in Lithuania the position has substantially improved in the face of that country's refusal to follow their example. In spite of the fall of prices during the first half of 1938, all these countries were still enjoying a measure of prosperity greater than at any time since 1931. This recovery has been based, broadly speaking, on the gradual expansion of exports to the United Kingdom, the higher level of world prices as compared with that of the crisis years, and, so far as the internal position is concerned, on the policy of self-sufficiency dictated by the lack of foreign exchange in the years of the depression. It remains to examine how far these elements can be considered to be of a permanent nature.

It will first be seen that the case of Lithuania differs somewhat 453
from that of the other two countries. In Lithuania the productive system has remained essentially very much what it was before the crisis of 1931. Provided, therefore, that there is no fundamental change in her economic policy, it is reasonable to suppose that Lithuania will continue to exchange agricultural produce for manufactured articles, and that the index of her prosperity will continue

433 to be the value of her exports of bacon, butter, timber, and flax which, [457] as has been seen, are taken largely by the United Kingdom. Whether, in order to protect that market, Lithuania will be forced to realign her currency is perhaps open to question, but the fact that this step was not necessary during the crisis of 1931–5 suggests that no change is needed in her monetary policy for the moment. What is certain, however, is that her economic system has been working on too narrow a margin to permit of a rapid accumulation of capital, either in domestic currency or in *devisen*. There are no funds available for capital renewals of the more substantial kinds, or for large schemes of development. Ultimately these will be inevitable if the standard of living is not to remain exceptionally low, even for Eastern Europe; and their realization, therefore, will depend on Lithuania's ability to obtain foreign capital. In this she should be assisted by the low level of her foreign debt.

433 In Estonia and Latvia the productive system has become considerably more complex than it was before the crisis. The change, as was seen, consists largely in the increased importance of agriculture to the home consumer and the growth of industrialization. There can be little doubt as to the benefit accruing from the former of these developments in the saving of exchange on the import of cereals and other products now grown at home. So far as the latter is concerned, the advantages are, perhaps, less obvious. It is true that the volume of industrial production in both countries is probably far lower than in 1914. But before the War the industries of Estonia and Latvia were working for an assured and almost unlimited market; they now work primarily for the domestic market alone. Moreover, the lack of essential raw materials needed by industry clearly sets certain definite limits to the pursuit of self-sufficiency in this fashion. At the best, then, the saving in exchange as the result of this policy consists only in the difference between the cost of the raw materials and that of the manufactured article, and meanwhile the cost of importing the necessary machinery, &c., has been heavy, as was seen in Estonia during 1936, and still more in [439] 1937. Thus, however far this development is pushed, both Latvia and Estonia, it would seem, will continue to rely on their exports of timber[1] and agricultural produce. Since, as in Lithuania, their free foreign exchange is derived largely from their balance of trade with the United Kingdom, the prosperity of both countries will depend in the last resort on their ability to maintain their position in that market.

000 The result of this change in the productive system, therefore, may

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[1] It should be noted, however, that the extensive felling of timber may create a serious problem for all three countries in the more distant future. See above, pp. 114–15.

The result of this change in the productive system, therefore, may 433 not be large in itself; but it has been accompanied by a development 471 which may assume considerable importance, namely the increase in the extent of control exercised by the State over the economic system, both in Estonia and in Latvia. As has been seen, the increase has been most remarkable in Latvia, where there has been a steady progress towards a form of State capitalism. The movement has been less noteworthy in Estonia, it is true, but the tendency plainly exists, and its importance should not be underestimated. Some attempt was made to indicate the potential dangers to the financial position of the State which may result from such a policy, but this is by no means its only disadvantage. For, like Lithuania, both Estonia and Latvia are unable to accumulate capital on a scale sufficient to enable them to finance large schemes of development themselves, and they will depend for this on their ability to borrow abroad. Their need to do so, moreover, will presumably be greater than that of Lithuania owing to the greater degree of their industrialization, even if their standard of living as a whole is somewhat higher. But the pursuit of a policy of State capitalism, and the arbitrary methods which it sometimes involves, does little to encourage prospective lenders.

In general, then, the economic prosperity of the Baltic States 439 depends largely on their export trade, and this, in turn, depends 457 largely upon the United Kingdom. Provided, therefore, that they can maintain the commercial relations they have built up with that country since 1934, and that agricultural prices do not fall substantially below present levels, the stability of their present economic existence should be assured so long as the respective Governments can avoid the dangers of State capitalism. But this means little more, in the last resort, than that the current income of the economic system will roughly suffice to cover current outgoings, and that the standard of living will remain at or around its present level. If reserves are to be accumulated, whether to ensure against a future depression or to finance the development needed to raise the standard of living, foreign capital will be indispensable.

APPENDIX I

POPULATION

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1. *Population, Area, and Density*

	Estonia	*Latvia*	*Lithuania*
Date of census	1.3.34	12.2.35	1.1.36*
Population	1,126,000	1,951,000	2,527,000
Area (square miles)	18,353	25,395	21,489
Density (inhabitants per square mile)	61	77	118

* Official estimate only.

2. *Vital Statistics*

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	Annual birth-rate per 1,000 inhabitants	*Annual death-rate per 1,000 inhabitants*	*Annual excess of births per 1,000 inhabitants*
Estonia:			
1921–5 average . . .	19·6	15·5	4·1
1926–30 " . . .	17·6	16·5	1·1
1931–5 " . . .	16·5	14·9	1·6
1936 . . .	16·1	15·6	0·5
Latvia:			
1921–5 average . . .	22·1	14·8	7·3
1926–30 " . . .	20·7	14·8	5·9
1931–5 " . . .	18·3	13·9	4·4
1936 . . .	18·1	14·1	4·0
Lithuania:			
1922–5 average . . .	28·3	16·4	11·9
1926–30 " . . .	28·1	16·2	11·9
1931–5 " . . .	25·4	14·6	10·8
1936 . . .	24·1	13·3	10·8

3. *Occupations*

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(Numbers employed in various occupations expressed as a percentage of those gainfully occupied.)

	Estonia (*1934*)	*Latvia* (*1930*)	*Lithuania* (*1936*)
Agriculture	60·2	66·2	76·7
Industry	17·8	13·5	6·4
Commerce	5·1	5·2	2·5
Transport	3·5	3·3	1·1
Other (public and domestic service, liberal professions, &c.) . .	13·4	11·8	13·3
Total	100·0	100·0	100·0

APPENDIX II

COMMUNICATIONS

504 The Baltic States as a whole are not remarkably well provided with
communications. It is true that both Estonia and Latvia each possess
one harbour of great importance, viz. Tallinn and Riga, and a number
of other ports, but Lithuania's seaboard is small and her sovereignty
496 over her only harbour, Memel (Klaipeda), is limited. On the other hand,
nearly all the railways at present in use were built in the days of the
Russian Empire, often with strategic considerations in view, and it is,
therefore, not surprising that the railway system is not well adapted to
meet the requirements of three independent States. Though there are
hardly any natural obstacles such as mountains, the adapting of the
railways to their national requirements since the War has been limited
494 by the scarcity of capital. Finally, the road system inherited from
Imperial Russia was poor, though it has been somewhat improved since
the War.

(1) *Shipping*

505 The relative importance of the most important harbours can be judged from the following figures:

Shipping entered (in thousand net registered tons) in 1937, including coastal traffic

Riga	1,243
Tallinn	957
Memel	845
Ventspils	325
Liepāja	298

Most of the shipping entering these ports is foreign except in the case of Latvia. Of the total net registered tons of shipping entering the principal Latvian ports in 1937 about 29 per cent. was German, 26 per cent. Latvian, 11 per cent. Danish, and rather less British, while the next most important flags were Swedish and Norwegian.

The merchant fleets of Estonia and Latvia are small, and for the most part are chiefly occupied in local transport. That of Lithuania is at present of negligible importance. The total tonnage of merchant vessels[1] owned by Estonia on June 30, 1936, was 155,000 tons, and that of Latvia 170,000 tons, in each case nearly all the vessels being steamers. During 1937 the Latvian Government assisted in the formation of a shipping company, which has decided to order two modern cargo boats of 2,000 tons gross each to start a passenger and goods service between Latvia and British and German ports, and in other ways the Government has given much assistance to Latvian shipping. Proposals are made from time to time in Lithuania with a view to the foundation of a merchant fleet, but the only important step so far taken in this direction has been the purchase in 1935 of some small ships by the *Maistas* co-operative association. The Baltic ports are served by a number of

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[1] Of 100 tons and over.

505 regular sailings of British, German, Finnish, and Scandinavian lines. Of these may be mentioned the United Baltic Corporation, which maintains weekly services between London and Memel, Riga, and Tallinn.

504 The ports of Riga and Tallinn are blocked by ice in the winter months, especially February and March, but in each case channels for steamers are kept open by ice-breakers. While Latvia's trade is thus subject to disorganization, Liepāja and Ventspils are generally free of ice and consequently do a considerable trade in the winter, although accommodation in the ports is limited. Moreover, plans are at present being considered for the further development of a river harbour on the Lielupe at Jelgava. On the other hand, congestion in Tallinn can be relieved only by the use of the small ports of Narva-Joesuu, Pārnu, and Paldiski. Memel also is blocked by ice in winter, though an ice-breaker is used. Communication can, however, be maintained through the Latvian port of Liepāja. It may be mentioned that for some years the Lithuanian Government has been attempting to develop a small fishing village, Sventoji, near the Latvian frontier, with a view to providing an alternative port to Memel, though progress in this direction has not so far been great.

(2) *River Navigation*

133 Estonia has few navigable waterways, the Narva, which connects
487 Lake Peipus with the sea, being perhaps the most important. Both Latvia and Lithuania, however, possess rivers which are indispensable for the moving of timber. The principal navigable rivers in Latvia are the Daugava, the Gauga, and the Lielupe; in Lithuania, the Niemen (Nemunas). A canal joins the Niemen to the Bobr, which flows into the Narew, a tributary of the Vistula. The canal is, however, in Polish territory. The Berzune, a tributary of the Niemen, is also joined to the Daugava by a canal. Finally, it should be remembered that most, if not all, of the inland waterways of these countries are closed by ice for three to four months of the year.

(3) *Railways*

496 As already mentioned, the railway system inherited from Russia bore little relation to the new national requirements. For example, Russia had no object in linking Memel to Kovno, since Memel was in Germany, and Russia had built Libau expressly to be independent of German communications. Moreover, many of the lines were built (or not built) for purely strategic reasons, and nearly all were of the broad Russian gauge. It was natural, too, that they tended to radiate from centres in Russia with which, as has been seen, the Baltic States were to trade far less than before the War. Finally, the War had led to the wholesale destruction of stations, bridges, and other buildings, and even to the removal of locomotives and rolling-stock. Thus, the problems with which the new States were faced were considerable.

495 Reconstruction began soon after the War. In almost every case the
727 railways were taken over by the State. The amount of repairs which

had to be undertaken, both to the permanent way and to rolling-stock, 499
was large. In some instances it was necessary to lay fresh lines, and 727
where funds could be obtained this was done. By 1930 considerable progress had been made, though the state of the permanent way is often so bad that the times taken even by fast trains over easy ground is comparatively slow.

In August 1924 a railway conference between Estonia, Latvia, and 648
the U.S.S.R. resulted in the decision to unify the existing separate rail- 496
way conventions on the basis of the International Convention of Berne, and in the signature of nine technical conventions. On October 29, 1925, a convention relating to railway transit traffic was concluded by the same three Powers.[1]

In Estonia on April 1, 1936, there were 891 miles of railway, of which 496
473 miles were broad gauge, and 418 miles narrow gauge. As much as 727
254 miles of railway had been constructed since the War. A considerable saving in the running of the railways is now effected by the burning of shale-oil.

In Latvia the post-War difficulties were complicated by the fact that during the German occupation most of the permanent way had been converted to normal or narrow gauge; whereas, if Latvia were to recover her transit trade with Russia, many of the lines would have to be reconverted to Russian gauge. In April 1936 there were 2,023 miles in use, 1,214 miles being of the broad gauge and 198 miles of the normal gauge, the latter relating chiefly to the lines connecting Latvia with Central Europe. In recent years there has been a considerable amount of fresh construction,[2] though none of the lines completed appears to be of outstanding importance.

Lithuania's difficulties were fully as serious as those of Latvia, for Lithuania also had been occupied by the German forces. Moreover, the existing network of railways was far less suited to the requirements of
the new State than in the other two cases. The most important of these [499]
deficiencies, however, was eliminated by the completion, in 1932, of the only really important piece of fresh construction in the Baltic States since the War, the Siauliai–Telsiai–Kretinga Railway.[3] At the end of 1934 there were 1,152 miles of railway in existence, of which 797 miles were broad gauge.

The comparative position of the three countries can be seen from the following table:

	Square miles of total territory per mile of railway in use	*Millions of ton-kilometres of goods carried by railways in 1936*
Estonia . . .	21	225
Latvia . . .	13	380*
Lithuania . .	19	280

* Excluding transit traffic in foreign trains.

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[1] For text see *League of Nations Treaty Series*, vol. lxvi, p. 147.

[2] Details are given in D.O.T.: *Economic Conditions in Latvia, January 1935*, publ. 1935, pp. 33–4.

[3] For the importance of this railway, see p. 101.

496 The main line linking the Baltic States to Central Europe is that running from Berlin to Tallinn via Poznan, Tilsit, Siauliai, and Riga. The other important line running north and east, from Warsaw to Leningrad via Grodno and Vilna, is of little real importance to these States, though it passes through Latvian territory via Daugavpils. Connexions with Russia, on the other hand, are good. There are important lines connecting Leningrad with Tallinn and Riga, Moscow with Liepāja via Jelgava, with a branch to Riga, and southern Russia with Liepāja via Minsk, Vilna, and Kaunas, with a branch to Koenigsberg via Kaunas. In general Latvia has, perhaps, the most extensive system, followed by Estonia, while that of Lithuania is poor. Kaunas, in particular, is badly served for a capital city, and Siauliai would seem to be the railway centre of the country.

(4) *Roads*

491 499 In general the road system taken over from the Russian Empire was, like the railways, poor; and had also been greatly affected by the War. For several months of the year the roads are under snow and, even after the snows have gone, suffer from the effects of the thawing. Much progress has, however, been made since the War in improving the conditions of the metalled road system and in constructing fresh metalled roads. In Estonia, for example, the State has taken over completely the maintenance of the principal roads and has set up a Road Fund for this purpose, its revenue coming from subsidies and certain specific taxes.[1] At the same time the development of motor transport is hindered by the fact that both the vehicles and the fuel must be imported, though Estonia, it is true, can eventually use shale-oil as a substitute for petroleum. 493 In recent years the import of vehicles has been much encouraged by a lowering of import duties in Estonia and Lithuania. The total number of motor vehicles in 1936 was as follows:

	Estonia	*Latvia*	*Lithuania*
Cars	2,580	2,512	1,338
Lorries	1,620	1,963	387
Omnibuses	245	267	283
Motor-cycles	1,401	2,193	1,116

(5) *Aviation*

503 No regular passenger or postal services are maintained by these countries. Regular services to the three capital cities are maintained during most of the year by German (*Lufthansa*), Finnish (*Aero O.Y.*), or Polish (*Lot*) lines. Thus Tallinn is connected with Helsinki and Leningrad, while a Polish line maintains a service from Warsaw, and a German line a service from Berlin, to Tallinn and Riga. The German line halts at Kaunas. All three countries were included in the arrangements made by the British General Post Office in the summer of 1937 for the introduction of air mail services from the United Kingdom.

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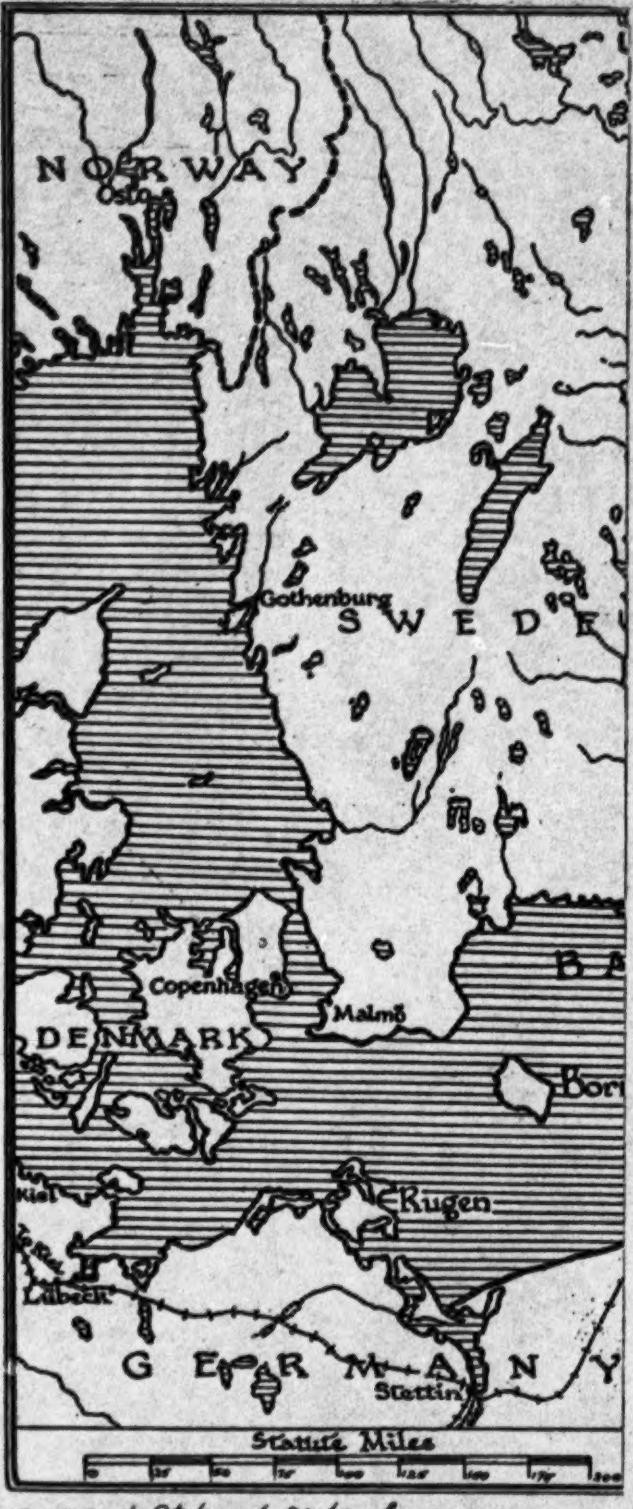
[1] See D.O.T.: *Economic Conditions in Estonia, December 1935*, publ. 1936, p. 25.

1: Anonymous U-4 (no date)1938 RB1 Baltic States RB1

102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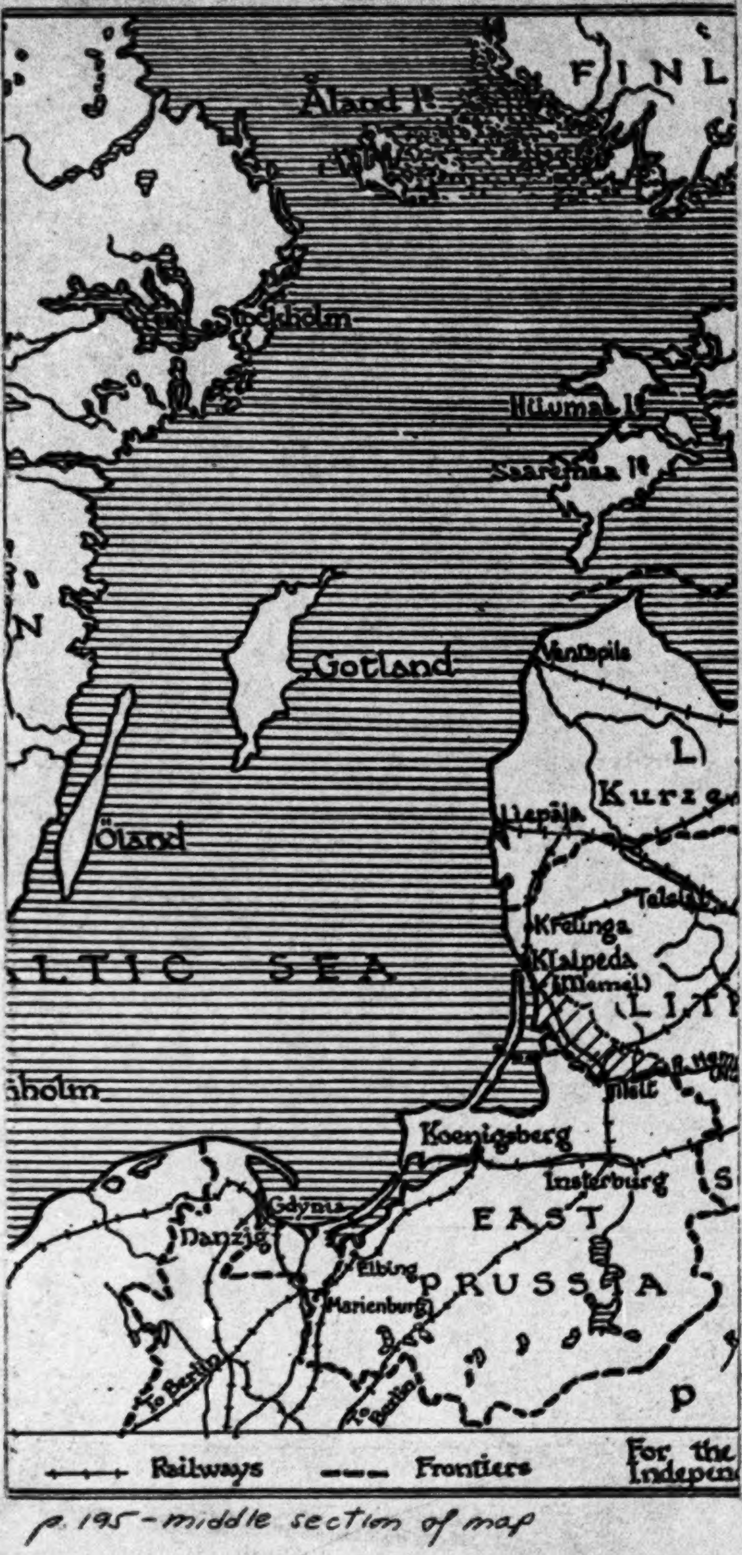
p. 195 - left hand side of map

1: Anonymous U-4 (no date)1938 RB1 Baltic States RB1

102



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p. 195 - middle section of map

1: Anonymous U-4 (no date)1938 RB1 Baltic States RB1

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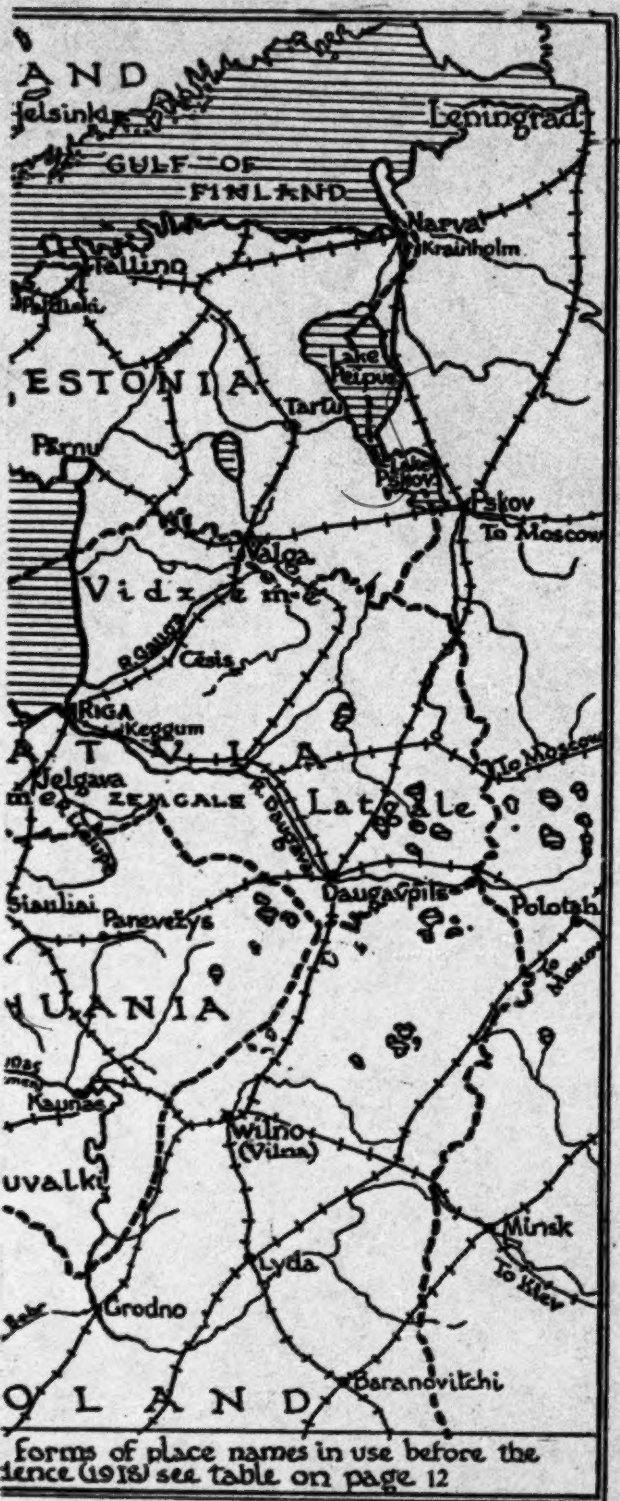
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Paldiski
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Pärnu
Lake Pskov
Pskov
To Moscow
Valga
Vidzeme
R. Gauja
Cēsis
RIGA
Keggum
ATVIA
Jelgava
ZEMGALE
R. Daugava
Latgale
To Moscow
Daugavpils
Polotsk
Siauliai
Panevežys
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Wilno
(Vilna)
uvalki
Minsk
Lyda
To Kiev
Grodno
Baranovitchi
OLAND

forms of place names in use before the
dence (1918) see table on page 12

Specially drawn for the Royal Institute of International Affairs

p 195 - right hand side of map

1: Anonymous
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Baltic States RB1

[For historical background and international relations of the Baltic States from the 12th century through 1938, see cat. 116, pp. 13-28; 62-89. --Analyst]